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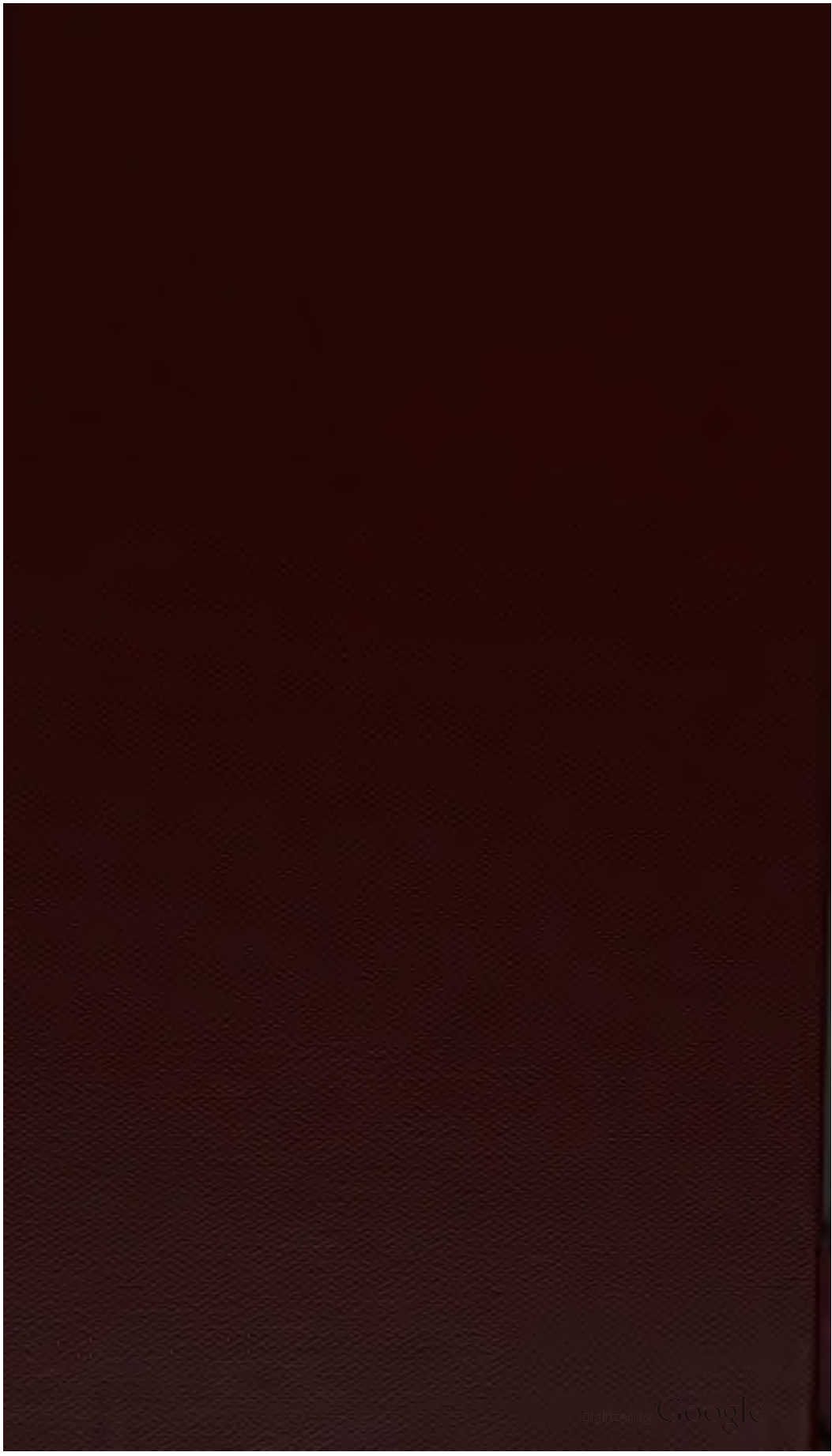
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HOUSING ACT OF 1985

DS RECORD ONLY;

HEARINGS

BEFORE THE
SUBCOMMITTEE ON
HOUSING AND COMMUNITY DEVELOPMENT
OF THE
COMMITTEE ON
BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 1

A BILL TO AMEND AND EXTEND CERTAIN LAWS RELATING TO
HOUSING, AND FOR OTHER PURPOSES

PART 4

MARCH 13 AND 14, 1986, AND APPENDIX

Serial No. 99-9

Printed for the use of the
Committee on Banking, Finance and Urban Affairs



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HOUSING ACT OF 1985

WEDNESDAY, MARCH 13, 1985

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT,
Washington, DC.

The subcommittee met at 9:30 a.m., in room 2128 of the Rayburn House Office Building, Hon. Henry B. Gonzalez (chairman of the subcommittee) presiding.

Present: Representatives Gonzalez, Oaker, Vento, Garcia, Frank, Morrison, Cooper, Erdreich, Levin, Carper, Kanjorski, Manton, McKinney, Wylie, Roukema, Wortley, Ridge, Bartlett, Roth, Grotberg, and Kolbe.

Chairman GONZALEZ. The subcommittee will please come to order.

The Subcommittee on Housing and Community Development this morning continues its legislative hearings. We hear from the Secretary of Housing and Urban Development this morning, Mr. Samuel R. Pierce, Jr. We welcome the Secretary again this time. It's been almost 2 years since we had the Secretary before us and, of course, many developments have occurred during that time, the most recent being the administration's budget, which in my opinion proposes to do very serious and egregious damage to the 45-year effort of housing low- and moderate-income people.

There are a large number of issues and I believe the members have many questions they will be asking this morning of you, Mr. Secretary, so I have intended not to speak at any great length in these opening remarks.

Suffice it to say that we in Congress are facing a very straightforward issue this year, whether or not we will continue the Federal effort of providing housing for low- and moderate-income people. This is the basis upon which I am proceeding with legislative efforts this year.

As I have said repeatedly, this is a year of proof. We either do or do not reaffirm a national policy or commitment of over 40 years standing.

I know that you have a prepared statement which has been given to me in the interim and, as usual, you may proceed as you may see best. You may wish to read your prepared statement or you may wish to summarize it. Either way, your statement will be presented as you have written it for the record at this point.

I recognize Mr. McKinney, the ranking member, for any statement or other purposes he may wish to address.

(2487)

Mr. McKINNEY. Mr. Secretary, it's a pleasure to have you here this morning.

Mr. Chairman, there's going to be a lot said to the Secretary today and I think I should make it very clear for the record that I happen to personally know that the Secretary did heroic battle in the Executive Office Building with OMB to try and keep the administration from making some of the draconian cuts that were proposed for his Department. He fought long and hard for that and I'm eternally grateful. I'm afraid he lost in some areas but it's very difficult to fight off Mr. Stockman. I am lucky. In the 14 years that I have been here I have disliked and ignored OMB under every type of administration and I shall continue my same practice with this administration.

Mr. Secretary, it's a delight to have you here.

Secretary PIERCE. Thank you.

Chairman GONZALEZ. Thank you. Does any other member wish to say anything at this point? We will recognize you briefly if you do.

Mr. WYLIE. Mr. Chairman, I just want to extend a warm welcome to the Secretary and I look forward to hearing from Mr. Pierce this morning. Thank you.

Chairman GONZALEZ. Mr. Secretary.

STATEMENT OF HON. SAMUEL R. PIERCE, JR., SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY JEFFREY FINKLE, ACTING DEPUTY ASSISTANT SECRETARY, COMMUNITY PLANNING AND DEVELOPMENT, AND ALFRED C. MORAN, ASSISTANT SECRETARY-DESIGNEE, COMMUNITY PLANNING AND DEVELOPMENT

Secretary PIERCE. I thank you very kindly, Mr. Chairman.

Mr. Chairman and members of the subcommittee: It is a pleasure to appear before you and to testify on the fiscal 1986 budget and legislative proposals for the Department of Housing and Urban Development.

When I became Secretary of HUD, I took to heart President Reagan's charge to reduce the size and cost of Government while continuing to help the most needy. To build a future of hope for all the American people, we had to halt runaway inflation and promote a strong and lasting economic recovery.

The economic recovery is both history and current events. Inflation that in 1980 seemed stuck at double digits has been reduced to 3 and 4 percent these past 3 years. The stock market that was entering a recession is now surging to record highs.

The housing industry, once in the depths of despair, is back— hale and hearty.

And, I'm proud to say, we are helping to house more needy people than ever have been housed before. This administration is directing our assistance to people—not bricks and mortar. We're doing this while reducing the Nation's assisted housing debt. The chart over to my left dramatically portrays this fact and I'd like to say just a few words about it.

When I came to HUD in 1981, my financial people said that we were facing a tremendous assisted housing debt, that by 1982 it

would rise to \$250 billion, and I felt as though we had to try every way in our power to stop that. We were able to stop it. We stopped it in 1982 at \$244 billion and since that time it's been dropping and we were able to stop it because we terminated section 8 new construction which I considered wasteful and not economical.

We also made better use of both new and existing programs. We deobligated a number of nonviable projects. We made improvements in management.

Through these and other things we were able to stop that rising debt and as you see, it has dropped dramatically since then. Today it's at about \$235 billion and by 1986 it will go under \$200 billion.

At the same time—and I emphasize this—at the same time we have increased the number of families who receive assisted housing. When I got here there were about 3.2 million families receiving assisted housing. It's now at about 3.8 million, and it will continue to go up in the future so that by 1986 it will exceed 4 million. Thus, we have been increasing assisted housing while we have been decreasing the assisted housing debt, the very thing that the President asked me to do, to reduce the size and cost of Government but at the same time care for the most needy. So we have been increasing our aid to the most needy while reducing our debt and taking it off the backs of future taxpayers.

Now in 1981, the total assisted housing debt was being forecast at \$250 billion by 1982, as I said before; \$250 billion is a lot of money, a quarter of a trillion dollars. The debt had increased 30 percent between 1977 and 1980. Clearly, we had to redirect the Nation's housing policy to save us from an assisted housing debt of catastrophic proportions, while continuing to help the most needy.

As a first step, we switched emphasis from new construction programs to those which utilize existing housing stock. As part of that effort, we developed the rental rehabilitation initiative and the Voucher Program which provides housing assistance to eligible families at about one-third the cost of new construction.

With these actions and others, we've begun to reduce the assisted housing debt, as the chart indicates. At the same time, we are assisting more families than ever. In fiscal 1981, HUD was assisting 3.2 million families with housing; in 1986 that number will have risen to 4.2 million, an increase of approximately 1 million families since I arrived at HUD.

I'm proud of that increase. And, I'm proud of the reduction we've achieved—and continue to achieve—in the assisted housing debt.

I intend to maintain and improve upon our progress on both these fronts. But present conditions demand that we do even more.

Today, as President Reagan said in his second inaugural address: "We have come to a turning point, a moment for hard decisions."

In making those decisions, we benefit by the groundwork laid over the last 4 years.

By 1981, the Section 8 New Construction Program had produced a great number of housing units. But, it was exorbitantly expensive and it took years before actually housing anyone.

I recommended that we terminate the program and the Congress agreed.

Our proposals of the early 1980's sought new means to address the low-income housing needs of this country both thoughtfully and

sensibly. With vouchers, we have an assisted housing program that utilizes existing housing stock instead of focusing on new construction. We'll subsidize a family instead of a builder. We'll offer freedom of choice and a shopper's incentive for a family, instead of forcing it to live in a Federal project. And we'll shelter that family today, not three to four years from now—the average time it took to house a family under section 8 new construction.

The American people have a commitment to provide decent, safe, and affordable housing for those who are needy. With these changes and new programs, we renew taxpayer confidence so we can carry that commitment into the future.

Mr. Chairman, we can help attack Federal deficits through a temporary pause in funding new assisted housing units. We propose a 2-year moratorium on incremental units, knowing that we have a substantial amount in our pipeline which will add 207,000 new families to those we now assist. We also know that, when full funding resumes in fiscal 1988, our programs will be adding new families—who will be housed more quickly—because of the voucher.

Those programs will include:

A Permanent Voucher Program, for which authorization in fiscal 1986 is sought;

Section 202 housing for the elderly and handicapped;

Rental rehabilitation, a Pay-As-You-Go Program which allows local government decisionmaking for design and location of its projects.

And finally, Indian housing.

We propose terminating the Rental Housing Development Grant Program, or HoDAG. This program was created by the Congress and accepted by the administration with the understanding that it would be a one-time, 2-year program.

We have found that the HoDAG Program is an expensive way to subsidize lower income housing. We estimate, overall, 60 percent of the HoDAG funds are subsidizing market rate units and 40 percent are subsidizing lower income units. The net effect is a cost of \$76,000 to provide a lower income HoDAG unit. In addition, three-quarters of the HoDAG projects include tax-exempt financing, increasing the Federal cost even more.

We also have found that the program is not well targeted to need. Over 40 percent of the projects funded thus far are located in cities with a rental vacancy rate above the national median of 6.34 percent, accounting for 43 percent of the HoDAG funds. Rental vacancy rates in these cities went as high as 12 percent.

We've made some tough decisions for fiscal 1986 in our public housing programs. But here again, our proposals rest on a foundation of long-term planning of management reforms and use of a substantial funding pipeline.

We propose \$1 billion in operating subsidies for fiscal 1986, which represents 100 percent of the performance base funding formula.

Under the Modernization Program, approximately \$3 billion of the \$7.4 billion of funds approved through 1984 for capital improvements remains available for present and future use by public housing authorities. In addition, we have on hand \$847 million of funds

approved for fiscal year 1985—funds which can and will be committed to these PHA's.

We propose a limited moratorium on modernization funds for fiscal 1986. I say "limited" because we still will provide \$175 million for emergency needs.

However, we will use this moratorium on comprehensive modernization to allow PHA's to utilize backed-up pipeline funds and develop long-range planning for future funding.

We also want to use the moratorium period for transition to a more effective modernization program. I soon will submit a proposal for a comprehensive grant system which would become effective in fiscal 1987. The objectives of the proposal will be to deregulate the public housing program in favor of a greater degree of local choice and to provide a greater degree of predictability of funding for capital improvements through use of formula funding. I look forward to working with the authorization committees in both Houses toward development of such a system.

In addition, our 1986 budget and legislative package proposes public housing financing reform to reduce budget outlays in future years. The Tax Reform Act of 1984 has prevented us from rolling over in the private market approximately \$14 billion in guaranteed, tax-exempt short-term notes. These notes had been issued to finance public housing development and modernization. We are buying up the entire inventory of these notes, increasing outlays and budget authority sharply in 1985.

We propose to turn this problem into an opportunity. We plan to finish buying up the inventory of short-term loans and seek legislation to cancel both the Treasury debt and the debt of the public housing authorities. With these cancellations, by 1990 we would recapture and rescind approximately \$36 billion in long-term commitments to pay debt service. This would enable us to reform the outdated and expensive financing mechanism for public housing construction and modernization. These programs would then be financed on an up-front capital cost basis, saving billions of dollars in future years.

With steps like these, we hope to avoid mortgaging our children's future.

The people who live in public housing deserve a better future, as well. The quality of life in public housing is important to us, and we're being innovative on behalf of those who live there. We're also committed to improving and preserving our existing housing inventory, which can contribute to a better quality of life for residents of public housing.

Now I'll discuss our community development proposals. Community development block grants must play a part in our deficit reduction effort for 1986. We propose a CDBG reduction of 10 percent, to a funding level of \$3.125 billion. This is solely a belt-tightening measure for fiscal 1986. Beginning in fiscal 1987, we will increase funding by 6 percent per year through 1990.

We also propose changing the split of CDBG funds between the entitlement and nonentitlement categories from a 70- and 30-percent division to a 60- and 40-percent split. This allocation change will allow more of the community development activities currently carried out by the Farmers Home Administration to be undertaken

by small communities through the State CDBG Program. This is consistent with the administration's proposal to end Farmers Home support of public facility construction projects.

To underscore our commitment to deficit reduction, we propose terminating one major development program—Urban Development Action Grants, or UDAG. As you know, I've been one of the program's strongest supporters. I fought for its continuation.

UDAG has been a good program. Over the last 4 years, UDAG made possible redevelopment projects which could not have been achieved without it. However, we've come to the point where we must reduce our budget to bring down current and outyear deficits. In order to do this, the administration has taken the position it will eliminate Federal financing and grant programs for local economic development programs such as EDA, the Appalachian Regional Commission and UDAG. By terminating these programs, savings to the Treasury will be nearly \$2 billion in just 3 years.

It's worth noting that over 80 percent of the communities which have won UDAG awards will receive some form of debt service repayment in 1986. Looked at another way, this year—fiscal 1985—debt service repayment to communities will amount to approximately \$170 million—roughly 25 percent of current annual UDAG appropriations. This repayment increases yearly, in 1988 reaching about 50 percent of current annual UDAG appropriations. These repayments allow communities to carry on new economic development activities.

The Urban Homesteading Program continues to serve as an effective, low-cost method for improving existing housing stock and promoting neighborhood revitalization. We propose a \$12 million appropriation for this program in 1986 to support the conveyance and homesteading of 827 units.

Our budget proposes expanded authority and outlays in one key area—fair housing. We are determined to assure fair housing for all Americans. Our one new undertaking next year will be a Fair Housing Initiatives Program to be funded at \$10 million in fiscal 1986. This will be part of an expanded national effort to focus on the problem of discrimination in housing by utilizing both public and private resources and energies at the grassroots level.

In addition, our existing Fair Housing Assistance Program will be continued at a funding level of \$5 million. This brings the total budget authority for fair housing programs to \$15 million, up from \$6.7 million in 1985. Outlays will also rise: From \$7.8 million to \$11 million.

The President and I have long recognized that we need to strengthen the enforcement provisions of our fair housing law. The issue of fair housing transcends partisan concerns. Stronger fair housing enforcement will be a major legislative effort for us this year.

Another priority is enactment of Federal enterprise zone legislation. Enterprise zones are targeted to areas of the country that are y distressed. Surrounded by extreme poverty and unemployment, these areas are not benefiting from the economic recovery—
 1 nent, they are likely to in the foreseeable future.

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 1 nent, they are likely to in the foreseeable future.

local incentives, private sector capital will be attracted to our distressed communities. Enterprise zones can help us to replace poverty and despair with jobs and hope.

That, Mr. Chairman, is where we are headed. I'm convinced that sacrifice is required if we are to meet the major economic challenges before us.

We can bring the Federal budget under control. And, doing so will help us ensure that the fruits of our prosperity are shared as widely as possible, especially with those with the greatest needs.

Thank you for inviting me to present our budget and legislative proposals to this committee. Now I will be glad to respond to any questions you and the members of the subcommittee may have.

Chairman GONZALEZ. Thank you, Mr. Secretary.

[Secretary Pierce's prepared statement, on behalf of the Department of Housing and Urban Development, and a letter from Secretary Pierce to Speaker of the House Thomas P. O'Neill, Jr., dated March 11, 1985, with the text of H.R. 1870 and a section-by-section explanation and justification of the legislation, follow:]

TESTIMONY OF
SECRETARY SAMUEL R. PIERCE, JR.
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

IT IS A PLEASURE TO APPEAR BEFORE YOU TO TESTIFY ON THE FISCAL 1986 BUDGET AND LEGISLATIVE PROPOSALS FOR THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT.

WHEN I BECAME SECRETARY OF HUD, I TOOK TO HEART PRESIDENT REAGAN'S CHARGE TO REDUCE THE SIZE AND COST OF GOVERNMENT WHILE CONTINUING TO HELP THE MOST NEEDY. TO BUILD A FUTURE OF HOPE FOR ALL THE AMERICAN PEOPLE, WE HAD TO HALT RUNAWAY INFLATION AND PROMOTE A STRONG AND LASTING ECONOMIC RECOVERY.

THE ECONOMIC RECOVERY IS BOTH HISTORY AND CURRENT EVENTS. INFLATION THAT IN 1980 SEEMED STUCK AT DOUBLE DIGITS HAS BEEN REDUCED TO 3 AND 4 PERCENT THESE PAST THREE YEARS. THE STOCK MARKET THAT WAS ENTERING A RECESSION IS NOW SURGING TO RECORD HIGHS.

THE HOUSING INDUSTRY, ONCE IN THE DEPTHS OF DESPAIR, IS BACK...HALE AND HEARTY.

AND, I'M PROUD TO SAY, WE'RE HELPING TO HOUSE MORE NEEDY PEOPLE THAN EVER HAVE BEEN HOUSED BEFORE. THIS ADMINISTRATION IS DIRECTING OUR ASSISTANCE TO PEOPLE -- NOT BRICKS AND MORTAR. WE'RE DOING THIS WHILE REDUCING THE NATION'S ASSISTED HOUSING DEBT. THE CHART DRAMATICALLY PORTRAYS THIS FACT.

IN 1980, THE TOTAL ASSISTED HOUSING DEBT WAS BEING FORECAST AT \$250 BILLION BY 1982 -- A QUARTER OF A TRILLION DOLLARS. IT HAD INCREASED 30 PERCENT BETWEEN 1977 AND 1980. CLEARLY, WE HAD TO REDIRECT THE NATION'S HOUSING POLICY TO SAVE US FROM AN ASSISTED HOUSING DEBT OF CATASTROPHIC PROPORTIONS, WHILE CONTINUING TO HELP THE NEEDY.

AS A FIRST STEP, WE SWITCHED EMPHASIS FROM NEW CONSTRUCTION PROGRAMS TO THOSE WHICH UTILIZE EXISTING HOUSING STOCK. AS PART OF THAT EFFORT, WE DEVELOPED THE RENTAL REHABILITATION INITIATIVE AND THE VOUCHER PROGRAM WHICH PROVIDES HOUSING ASSISTANCE TO ELIGIBLE FAMILIES AT ABOUT ONE-THIRD THE COST OF NEW CONSTRUCTION.

WITH THESE ACTIONS AND OTHERS, WE'VE BEGUN TO REDUCE THE ASSISTED HOUSING DEBT, AS THE CHART INDICATES. AT THE SAME TIME, WE'RE ASSISTING MORE FAMILIES THAN EVER. IN FISCAL 1981, HUD WAS ASSISTING 3.2 MILLION FAMILIES WITH HOUSING; IN 1986 THAT NUMBER WILL HAVE RISEN TO 4.2 MILLION...AN INCREASE OF APPROXIMATELY A MILLION FAMILIES SINCE I ARRIVED AT HUD.

I'M PROUD OF THAT INCREASE. AND, I'M PROUD OF THE REDUCTION WE'VE ACHIEVED...AND CONTINUE TO ACHIEVE...IN THE ASSISTED HOUSING DEBT.

I INTEND TO MAINTAIN AND IMPROVE UPON OUR PROGRESS ON BOTH THESE FRONTS. BUT PRESENT CONDITIONS DEMAND THAT WE DO EVEN MORE.

TODAY, AS PRESIDENT REAGAN SAID IN HIS SECOND INAUGURAL ADDRESS: "WE HAVE COME TO A TURNING POINT, A MOMENT FOR HARD DECISIONS."

IN MAKING THOSE DECISIONS, WE BENEFIT BY THE GROUNDWORK LAID OVER THE LAST FOUR YEARS.

BY 1981, THE SECTION 8 NEW CONSTRUCTION PROGRAM HAD PRODUCED A GREAT NUMBER OF HOUSING UNITS. BUT, IT WAS EXORBITANTLY EXPENSIVE AND IT TOOK YEARS BEFORE ACTUALLY HOUSING ANYONE.

I RECOMMENDED THAT WE TERMINATE THE PROGRAM, AND THE CONGRESS AGREED.

OUR PROPOSALS OF THE EARLY 80'S SOUGHT NEW MEANS TO ADDRESS THE LOW-INCOME HOUSING NEEDS OF THIS COUNTRY BOTH THOUGHTFULLY AND SENSIBLY. WITH VOUCHERS, WE HAVE AN ASSISTED HOUSING PROGRAM THAT UTILIZES EXISTING HOUSING STOCK INSTEAD OF FOCUSING ON NEW CONSTRUCTION. WE'LL SUBSIDIZE A FAMILY INSTEAD OF A BUILDER. WE'LL OFFER FREEDOM OF CHOICE AND A SHOPPER'S INCENTIVE FOR A FAMILY, INSTEAD OF FORCING IT TO LIVE IN A FEDERAL PROJECT. AND WE'LL SHELTER THAT FAMILY TODAY, NOT THREE-TO-FOUR YEARS FROM NOW ...THE AVERAGE TIME IT TOOK TO HOUSE A FAMILY UNDER SECTION 8 NEW CONSTRUCTION.

THE AMERICAN PEOPLE HAVE A COMMITMENT TO PROVIDE DECENT, SAFE AND AFFORDABLE HOUSING FOR THOSE WHO ARE NEEDY. WITH THESE CHANGES AND NEW PROGRAMS, WE RENEW TAXPAYER CONFIDENCE SO WE CAN CARRY THAT COMMITMENT INTO THE FUTURE.

MR. CHAIRMAN, WE CAN HELP ATTACK FEDERAL DEFICITS THROUGH A TEMPORARY PAUSE IN FUNDING NEW ASSISTED HOUSING UNITS. WE PROPOSE A TWO-YEAR MORATORIUM ON INCREMENTAL UNITS, KNOWING THAT WE HAVE A SUBSTANTIAL AMOUNT IN OUR PIPELINE WHICH WILL ADD 207,000 NEW FAMILIES TO THOSE WE NOW ASSIST. WE ALSO KNOW THAT, WHEN FULL FUNDING RESUMES IN FISCAL 1988, OUR PROGRAMS WILL BE ADDING NEW FAMILIES...WHO'LL BE HOUSED MORE QUICKLY...BECAUSE OF THE VOUCHER.

THOSE PROGRAMS WILL INCLUDE:

- o A PERMANENT VOUCHER PROGRAM, FOR WHICH AUTHORIZATION IN FISCAL 1986 IS SOUGHT;

- o SECTION 202 HOUSING FOR THE ELDERLY; AND

- o RENTAL REHABILITATION, A PAY-AS-YOU-GO PROGRAM WHICH ALLOWS LOCAL GOVERNMENT DECISION-MAKING FOR DESIGN AND LOCATION OF ITS PROJECTS.

- o INDIAN HOUSING

WE PROPOSE TERMINATING THE RENTAL HOUSING DEVELOPMENT GRANT PROGRAM, OR HO DAG. THIS PROGRAM WAS CREATED BY THE CONGRESS AND ACCEPTED BY THE ADMINISTRATION WITH THE UNDERSTANDING THAT IT WOULD BE A ONE-TIME, TWO-YEAR PROGRAM.

WE HAVE FOUND THAT THE HO DAG PROGRAM IS AN EXPENSIVE WAY TO SUBSIDIZE LOWER INCOME HOUSING. WE ESTIMATE THAT, OVERALL, 60 PERCENT OF THE HO DAG FUNDS ARE SUBSIDIZING MARKET RATE UNITS AND 40 PERCENT ARE SUBSIDIZING LOWER-INCOME UNITS. THE NET EFFECT IS A COST OF \$76,000 TO PROVIDE A LOWER INCOME HO DAG UNIT. IN ADDITION, THREE-QUARTERS OF THE HO DAG PROJECTS INCLUDE TAX-EXEMPT FINANCING, INCREASING THE FEDERAL COST EVEN MORE.

WE ALSO HAVE FOUND THAT THE PROGRAM IS NOT WELL TARGETTED TO NEED. OVER 40 PERCENT OF THE PROJECTS FUNDED THUS FAR ARE LOCATED IN CITIES WITH A RENTAL VACANCY RATE ABOVE THE NATIONAL MEDIAN OF 6.34 PERCENT, ACCOUNTING FOR 43 PERCENT OF THE HO DAG FUNDS. RENTAL VACANCY RATES IN THESE CITIES WENT AS HIGH AS 12 PERCENT.

WE'VE MADE SOME TOUGH DECISIONS FOR FISCAL 1986 IN OUR PUBLIC HOUSING PROGRAMS. BUT HERE AGAIN, OUR PROPOSALS REST ON A FOUNDATION OF LONG-TERM PLANNING OF MANAGEMENT REFORMS AND USE OF A SUBSTANTIAL FUNDING PIPELINE.

WE PROPOSE \$1 BILLION IN OPERATING SUBSIDIES FOR FISCAL 1986, WHICH REPRESENTS 100 PERCENT OF THE PERFORMANCE BASE FUNDING FORMULA.

UNDER THE MODERNIZATION PROGRAM, APPROXIMATELY \$3 BILLION OF THE \$7.4 BILLION OF FUNDS APPROVED THROUGH 1984 FOR CAPITAL IMPROVEMENTS REMAINS AVAILABLE FOR PRESENT AND FUTURE USE BY PUBLIC HOUSING AUTHORITIES. IN ADDITION, WE HAVE ON HAND \$847 MILLION OF FUNDS APPROVED FOR FISCAL YEAR 1985...FUNDS WHICH CAN AND WILL BE COMMITTED TO THESE PHAS.

WE PROPOSE A LIMITED MORATORIUM ON MODERNIZATION FUNDS FOR FISCAL 1986. I SAY "LIMITED" BECAUSE WE STILL WILL PROVIDE \$175 MILLION FOR EMERGENCY NEEDS.

HOWEVER, WE WILL USE THIS MORATORIUM ON COMPREHENSIVE MODERNIZATION TO ALLOW PHAS TO UTILIZE BACKED UP PIPELINE FUNDS AND DEVELOP LONG-RANGE PLANNING FOR FUTURE FUNDING.

WE ALSO WANT TO USE THE MORATORIUM PERIOD FOR TRANSITION TO A MORE EFFECTIVE MODERNIZATION PROGRAM. I SOON WILL SUBMIT A PROPOSAL FOR A COMPREHENSIVE GRANT SYSTEM WHICH WOULD BECOME EFFECTIVE IN FISCAL 1987. THE OBJECTIVES OF THE PROPOSAL WILL BE TO DEREGULATE THE PUBLIC HOUSING PROGRAM IN FAVOR OF A GREATER DEGREE OF LOCAL CHOICE AND TO PROVIDE A GREATER DEGREE OF PREDICTABILITY OF FUNDING FOR CAPITAL IMPROVEMENTS THROUGH USE OF FORMULA FUNDING. I LOOK FORWARD TO WORKING WITH THE AUTHORIZATION COMMITTEES IN BOTH HOUSES TOWARD DEVELOPMENT OF SUCH A SYSTEM.

IN ADDITION, OUR 1986 BUDGET AND LEGISLATIVE PACKAGE PROPOSES PUBLIC HOUSING FINANCING REFORM TO REDUCE BUDGET OUTLAYS IN FUTURE YEARS. THE TAX REFORM ACT OF 1984 HAS PREVENTED US FROM ROLLING OVER IN THE PRIVATE MARKET APPROXIMATELY \$14 BILLION IN GUARANTEED, TAX-EXEMPT SHORT-TERM NOTES. THESE NOTES HAD BEEN ISSUED TO FINANCE PUBLIC HOUSING DEVELOPMENT AND MODERNIZATION. WE ARE BUYING UP THE ENTIRE INVENTORY OF THESE NOTES, INCREASING OUTLAYS AND BUDGET AUTHORITY SHARPLY IN 1985.

WE PROPOSE TO TURN THIS PROBLEM INTO AN OPPORTUNITY. WE PLAN TO FINISH BUYING UP THE INVENTORY OF SHORT-TERM LOANS AND SEEK LEGISLATION TO CANCEL BOTH THE TREASURY DEBT AND THE DEBT OF THE PUBLIC HOUSING AUTHORITIES. WITH THESE CANCELLATIONS, BY 1990 WE WOULD RECAPTURE AND RESCIND APPROXIMATELY \$36 BILLION IN LONG-TERM COMMITMENTS TO PAY DEBT SERVICE. THIS WOULD ENABLE US TO REFORM THE OUTDATED AND EXPENSIVE FINANCING MECHANISM FOR PUBLIC HOUSING CONSTRUCTION AND MODERNIZATION. THESE PROGRAMS WOULD THEN BE FINANCED ON AN UP-FRONT CAPITAL COST BASIS, SAVING BILLIONS OF DOLLARS IN FUTURE YEARS.

WITH STEPS LIKE THESE, WE HOPE TO AVOID MORTGAGING OUR CHILDREN'S FUTURE.

THE PEOPLE WHO LIVE IN PUBLIC HOUSING DESERVE A BETTER FUTURE, AS WELL. THE QUALITY OF LIFE IN PUBLIC HOUSING IS IMPORTANT TO US, AND WE'RE BEING INNOVATIVE ON BEHALF OF THOSE WHO LIVE THERE.

WE'RE ALSO COMMITTED TO IMPROVING AND PRESERVING OUR EXISTING HOUSING INVENTORY, WHICH CAN CONTRIBUTE TO A BETTER QUALITY OF LIFE FOR RESIDENTS OF PUBLIC HOUSING.

NOW, I'LL DISCUSS OUR COMMUNITY DEVELOPMENT PROPOSALS. COMMUNITY DEVELOPMENT BLOCK GRANTS MUST PLAY A PART IN OUR DEFICIT REDUCTION EFFORT FOR 1986. WE PROPOSE A CDBG REDUCTION OF 10 PERCENT, TO A FUNDING LEVEL OF \$3.125 BILLION. THIS IS SOLELY A BELT-TIGHTENING MEASURE FOR FISCAL 1986. BEGINNING IN FISCAL 1987, WE WILL INCREASE FUNDING BY 6 PERCENT PER YEAR THROUGH 1990.

WE ALSO PROPOSE CHANGING THE SPLIT OF CDBG FUNDS BETWEEN THE ENTITLEMENT AND NON-ENTITLEMENT CATEGORIES FROM A 70 AND 30 PERCENT DIVISION TO A 60 AND 40 PERCENT SPLIT. THIS ALLOCATION CHANGE WILL ALLOW MORE OF THE COMMUNITY DEVELOPMENT ACTIVITIES CURRENTLY CARRIED OUT BY THE FARMERS' HOME ADMINISTRATION TO BE UNDERTAKEN BY SMALL COMMUNITIES THROUGH THE STATE CDBG PROGRAM. THIS IS CONSISTENT WITH THE ADMINISTRATION'S PROPOSAL TO END FARMERS' HOME SUPPORT OF PUBLIC FACILITY CONSTRUCTION PROJECTS. AND, IT MORE ACCURATELY REFLECTS THE NATION'S POPULATION AS A WHOLE.

TO UNDERSCORE OUR COMMITMENT TO DEFICIT REDUCTION, WE PROPOSE TERMINATING ONE MAJOR DEVELOPMENT PROGRAM --URBAN DEVELOPMENT ACTION GRANTS, OR UDAG. AS YOU KNOW, I'VE BEEN ONE OF THE PROGRAM'S STRONGEST SUPPORTERS. I FOUGHT FOR ITS CONTINUATION.

UDAG HAS BEEN A GOOD PROGRAM. OVER THE LAST FOUR YEARS, UDAG MADE POSSIBLE REDEVELOPMENT PROJECTS WHICH COULD NOT HAVE BEEN ACHIEVED WITHOUT IT. HOWEVER, WE'VE COME TO THE POINT WHERE WE MUST REDUCE OUR BUDGET TO BRING DOWN CURRENT AND OUT-YEAR DEFICITS. IN ORDER TO DO THIS, THE ADMINISTRATION HAS TAKEN THE POSITION IT WILL ELIMINATE FEDERAL FINANCING AND GRANT PROGRAMS FOR LOCAL ECONOMIC DEVELOPMENT...PROGRAMS SUCH AS EDA, THE APPALACHIAN REGIONAL COMMISSION AND UDAG. BY TERMINATING THESE PROGRAMS, SAVINGS TO THE TREASURY WILL BE NEARLY \$2 BILLION IN JUST THREE YEARS.

IT'S WORTH NOTING THAT OVER 80 PERCENT OF THE COMMUNITIES WHICH HAVE WON UDAG AWARDS WILL RECEIVE SOME FORM OF DEBT SERVICE REPAYMENT IN 1986. LOOKED AT ANOTHER WAY, THIS YEAR -- FISCAL 1985 -- DEBT SERVICE REPAYMENT TO COMMUNITIES WILL AMOUNT TO APPROXIMATELY \$170 MILLION...ROUGHLY 25 PERCENT OF CURRENT ANNUAL UDAG APPROPRIATIONS. THIS REPAYMENT INCREASES YEARLY, IN 1988 REACHING ABOUT 50 PERCENT OF CURRENT ANNUAL UDAG APPROPRIATIONS. THESE REPAYMENTS ALLOW COMMUNITIES TO CARRY ON NEW ECONOMIC DEVELOPMENT ACTIVITIES.

THE URBAN HOMESTEADING PROGRAM CONTINUES TO SERVE AS AN EFFECTIVE, LOW COST METHOD FOR IMPROVING EXISTING HOUSING STOCK AND PROMOTING NEIGHBORHOOD REVITALIZATION. WE PROPOSE A \$12 MILLION APPROPRIATION FOR THIS PROGRAM IN 1986 TO SUPPORT THE CONVEYANCE AND HOMESTEADING OF 827 UNITS.

OUR BUDGET PROPOSES EXPANDED AUTHORITY AND OUTLAYS IN ONE KEY AREA -- FAIR HOUSING. WE ARE DETERMINED TO ASSURE FAIR HOUSING FOR ALL AMERICANS. OUR ONE NEW UNDERTAKING NEXT YEAR WILL BE A FAIR HOUSING INITIATIVES PROGRAM TO BE FUNDED AT \$10 MILLION IN FISCAL 1986. THIS WILL BE PART OF AN EXPANDED NATIONAL EFFORT TO FOCUS ON THE PROBLEM OF DISCRIMINATION IN HOUSING BY UTILIZING BOTH PUBLIC AND PRIVATE RESOURCES AND ENERGIES AT THE GRASSROOTS LEVEL.

IN ADDITION, OUR EXISTING FAIR HOUSING ASSISTANCE PROGRAM WILL BE CONTINUED AT A FUNDING LEVEL OF \$5 MILLION. THIS BRINGS THE TOTAL BUDGET AUTHORITY FOR FAIR HOUSING PROGRAMS TO \$15 MILLION, UP FROM \$6.7 MILLION IN 1985. OUTLAYS WILL ALSO RISE: FROM \$7.8 MILLION TO \$11 MILLION.

THE PRESIDENT AND I HAVE LONG RECOGNIZED THAT WE NEED TO STRENGTHEN THE ENFORCEMENT PROVISIONS OF OUR FAIR HOUSING LAW. THE ISSUE OF FAIR HOUSING TRANSCENDS PARTISAN CONCERNS. STRONGER FAIR HOUSING ENFORCEMENT WILL BE A MAJOR LEGISLATIVE EFFORT FOR US THIS YEAR.

ANOTHER PRIORITY IS ENACTMENT OF FEDERAL ENTERPRISE ZONE LEGISLATION. ENTERPRISE ZONES ARE TARGETTED TO AREAS OF THE COUNTRY THAT ARE SEVERELY DISTRESSED. SURROUNDED BY EXTREME POVERTY AND UNEMPLOYMENT, THESE AREAS ARE NOT BENEFITTING FROM THE ECONOMIC RECOVERY...NOR ARE THEY LIKELY TO IN THE FORESEEABLE FUTURE.

ENTERPRISE ZONES CAN HELP ALLEVIATE THE SEVERE PROBLEMS IN THESE AREAS. WITH FEDERAL TAX AND REGULATORY RELIEF ADDED TO STATE AND LOCAL INCENTIVES, PRIVATE SECTOR CAPITAL WILL BE ATTRACTED TO OUR DISTRESSED COMMUNITIES. ENTERPRISE ZONES CAN HELP US TO REPLACE POVERTY AND DESPAIR WITH JOBS AND HOPE.

THAT, MR. CHAIRMAN, IS WHERE WE ARE HEADED. I'M CONVINCED THAT SACRIFICE IS REQUIRED IF WE ARE TO MEET THE MAJOR ECONOMIC CHALLENGES BEFORE US.

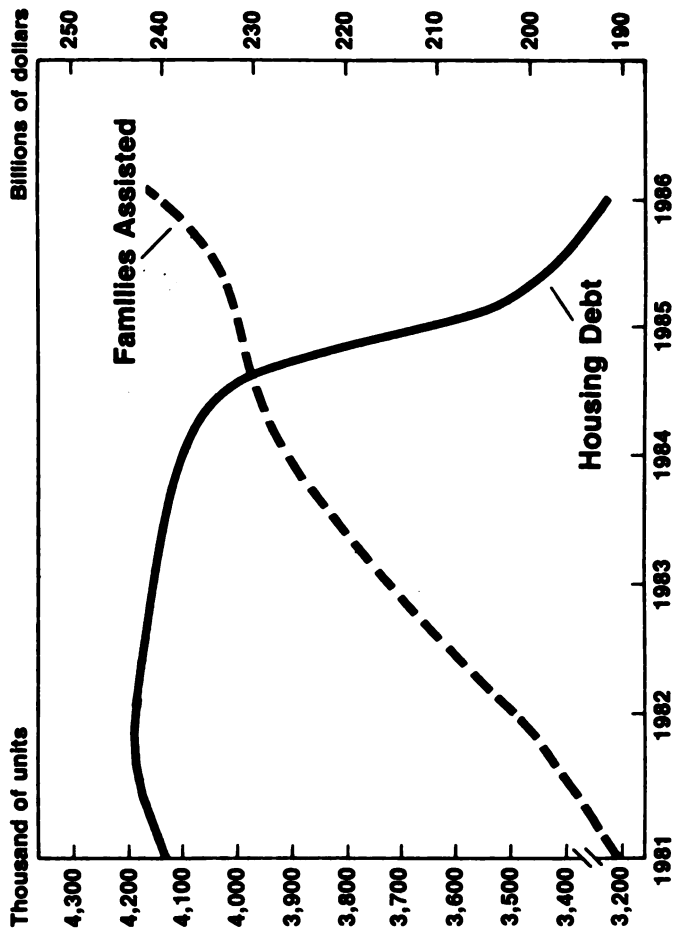
WE CAN BRING THE FEDERAL BUDGET UNDER CONTROL. AND, DOING SO WILL HELP US INSURE THAT THE FRUITS OF OUR PROSPERITY ARE SHARED AS WIDELY AS POSSIBLE, ESPECIALLY WITH THOSE WITH THE GREATEST NEEDS.

THANK YOU FOR INVITING ME TO PRESENT OUR BUDGET AND LEGISLATIVE PROPOSALS TO THIS COMMITTEE. I AM HAPPY TO RESPOND TO ANY QUESTIONS YOU AND THE MEMBERS OF THE COMMITTEE MAY HAVE.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

SUBSIDIZED HOUSING NUMBER OF FAMILIES ASSISTED AND HOUSING DEBT

1986 BUDGET





THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20510

MAR 11 1965

Honorable Thomas P. O'Neill, Jr.
Speaker of the House
of Representatives
Washington, D.C. 20515

Subject: Proposed "Housing and Community
Development Amendments of 1965"

Dear Mr. Speaker:

I am enclosing proposed legislation to extend HUD-FHA insuring authorities, to provide funding authorizations for certain programs of the Department, and to make a number of program amendments to existing authorities.

Among the major features of this proposal are:

- A proposal to make the Housing Voucher program permanent.
- A new Fair Housing Initiatives program to supplement existing fair housing efforts by making funding available for various administrative and private enforcement, and education and outreach activities.
- A Public and Indian Housing financing reform proposal that would replace the current tax-exempt, long-term loan arrangements with one-time capital contributions.
- A proposal to support the Department's efforts to detect fraud and abuse in its programs.
- A proposal to change the amounts allocated under the CDBG program to entitlement communities and to States from 70 percent and 30 percent, respectively, to 60 percent and 40 percent, to continue the current distribution of Federal community development funds after termination of funding for certain Department of Agriculture community development programs.
- A two-year moratorium on new assisted housing commitments, as part of the Administration's program to reduce the deficit. The impact of the moratorium will be minimized by the fact that 207,000 additional units will become available during 1966 and 1967 due to prior-year commitments.
- Termination of the Urban Development Action Grant (UDAG) and Housing Development Grant (HoDAG) programs, as part of a government-wide effort to eliminate all local economic development subsidies and to reduce the budget deficit.

In addition to these initiatives, the proposal contains a number of program amendments designed to increase the efficiency of the Department's housing assistance and mortgage insurance programs, to simplify program administration, and to reduce Federal regulation.

A section-by-section explanation and justification accompanies this letter and more fully sets out the contents of the bill. Timely enactment of this proposal would provide the Department with the necessary authority to carry out its responsibilities effectively during fiscal years 1986 and 1987. I request that the bill be referred to the appropriate Committee and urge its early enactment.

The Office of Management and Budget has advised that the enactment of this legislation would be in accord with the program of the President.

Very sincerely yours,



Samuel R. Pierce, Jr.

Enclosure

(Identical letter sent to the President of the Senate)

99TH CONGRESS
1ST SESSION

H. R. 1870

To amend and extend certain Federal laws relating to housing, community and neighborhood development, and related programs, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 2, 1985

Mr. WYLIE (by request) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

A BILL

To amend and extend certain Federal laws relating to housing, community and neighborhood development, and related programs, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That this Act may be cited as the "Housing and Community
- 4 Development Amendments of 1985".

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- Sec. 104. Allocation and distribution of funds.
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Sec. 109. Effective date.

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Sec. 203. Revised definition of disability.

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Sec. 302. Miscellaneous amendments.

Sec. 303. Expanded authority for setting insurance premium charges on title I loans.

Sec. 304. Mortgages on Hawaiian homelands and Indian lands to be obligations of the General Insurance Fund.

Sec. 305. Repeal of requirement to publish prototype housing costs for one- to four-family units.

Sec. 306. Authority for increased mortgage limits for multifamily projects in high-cost areas.

Sec. 307. Double damages remedy for unauthorized use of multifamily housing project assets and income.

PART B—OTHER PROGRAMS

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Sec. 312. Fair housing initiatives program.

Sec. 313. Repeal of legislative review requirements applicable to the Department of Housing and Urban Development regulations.

Sec. 314. Manufactured homes fees.

Sec. 316. Technical amendments to the Solar Energy and Energy Conservation Act.

Sec. 403. Conforming amendments to the National Housing Act.

2 DEVELOPMENT

4 COMMUNITY DEVELOPMENT ACT OF 1974

(b) The first sentence of section 107(a) of such Act is amended to read as follows: "Of the total amount approved in appropriation Acts under section 103 for each of the fiscal years 1984, 1985, 1986, and 1987, not more than \$66,200,000 for fiscal year 1984, not more than \$60,500,000 for each of fiscal years 1985 and 1986, and such sums as may be necessary for fiscal year 1987 may be set aside in a special discretionary fund for grants under subsection (b).".

2 SEC. 102. (a) Section 102(a)(13) of the Housing and
3 Community Development Act of 1974, as redesignated by
4 section 107(d)(1)(D) of this Act, is amended to read as
5 follows:

(b) The last sentence of section 102(a)(16)(A) of such Act, as redesignated by section 107(d)(1)(D) of this Act, is amended by inserting before the period at the end thereof the following: “, except that in the case of amounts distributed under section 106(d) to units of general local government located in nonmetropolitan areas, the area involved shall be the entire nonmetropolitan area of the State”.

SEC. 103. (a) Section 104(a)(1) of the Housing and
Community Development Act of 1974 is amended by striking
out the last sentence.

(b) Section 104(b)(4) of such Act is amended by striking out "it" and inserting in lieu thereof the following: "in the case of grants to cities and counties under section 106(b), the grantee".

5

1 (c)(1) Section 104(c) of such Act is hereby repealed.

2 (2) The first sentence of section 104(a)(1) of such Act is
3 amended by striking out "and, where appropriate, subsection
4 (c)".

5 (3) The penultimate sentence of section 104(a)(2) of
6 such Act is amended by striking out "and, where appropriate,
7 subsection (c)".

8 (4) Section 104(b)(5) of such Act is amended to read as
9 follows:

10 “(5) in the case of grants to cities and counties
11 under section 106(b), the grantee will cooperate in the
12 provision of housing opportunities suited to the needs
13 of persons of low and moderate income residing in the
14 community or who are expected to reside in the community
15 as a result of current or planned employment;”.

16 (5) Section 104(d)(1) of such Act is amended by striking
17 out “and, where applicable, its housing assistance plan”.

18 (6) The first sentence of section 106(c)(1) of such Act is
19 amended by striking out “section 104(a), (b), or (c)” and inserting
20 in lieu thereof “section 104(a) or (b)”.

21 (7) The second sentence of section 8(c)(1) of the United
22 States Housing Act of 1937 is amended by striking out “or
23 that such higher rent is necessary” and all that follows
24 through “1974”.

1 (8) Section 18(b)(1) of such Act is amended to read as
2 follows:

3 “(1) the application from the public housing
4 agency contains evidence that (A) it has been devel-
5 oped in consultation with tenants and tenant councils,
6 if any, that will be affected by the demolition or dispo-
7 sition, and (B) in the case of an application involving at
8 least (i) 20 units or (ii) 10 percent of the public housing
9 agency’s total number of public housing units, whichev-
10 er is less, it has been reviewed by, and contains any
11 comments of, the chief executive officer, or designee, of
12 the appropriate unit of general local government; and”.

13 (d) Section 106(d)(5) of the Housing and Community
14 Development Act of 1974 is amended by—

- 15 (1) inserting “and” at the end of clause (B);
- 16 (2) striking out “; and” at the end of clause (C)
- 17 and inserting in lieu thereof a period; and
- 18 (3) striking out clause (D).

19 ALLOCATION AND DISTRIBUTION OF FUNDS

20 SEC. 104. (a)(1) The first sentence of section 106(a) of
21 the Housing and Community Development Act of 1974 is
22 amended by striking out “70” and inserting in lieu thereof
23 “60”.

24 (2) The first sentence of section 106(d)(1) of such Act is
25 amended by striking out “30” and inserting in lieu thereof
26 “40”.

1 (b) The second sentence of section 106(c)(1) of such Act
2 is amended by—

3 (1) inserting “which are eligible to receive reallo-
4 cated funds” before “for that fiscal year, except
5 that—”;

6 (2) striking out in clause (B) “an action” and in-
7 serting in lieu thereof “actions”;

8 (3) striking out in clause (B) “a city or county”
9 and inserting in lieu thereof “any city or county”; and

10 (4) striking out in clause (B) “such action” the
11 last time it appears and inserting in lieu thereof “such
12 actions”.

13 (c)(1) Section 104(a)(1) of such Act is amended by—

14 (A) striking out in the first sentence “, under sec-
15 tion 106(d) by any State, or under section 106(d)(2)(B)
16 by any unit of general local government” and inserting
17 in lieu thereof the following: “or under section 106(d)
18 by any State”; and

19 (B) striking out in the second sentence “and in
20 the case of units of general local government receiving
21 grants pursuant to section 106(d)(2)(B)”.

22 (2) Section 104 of such Act is amended by—

23 (A) striking out the fifth and sixth sentences of
24 subsection (d)(1); and

1 (B) inserting in subsection (d)(1) after "section
2 106(d)(2)(B)" the following: "(as such provision existed
3 immediately before the effective date of the Housing
4 and Community Development Amendments of 1985)".

5 (3) Sections 106(d)(2) (A) and (B) of such Act are
6 amended to read as follows:

7 “(2)(A) Amounts allocated under paragraph (1) shall be
8 distributed by the State to units of general local government
9 which are located in nonentitlement areas of the State to
10 carry out activities in accordance with the provisions of this
11 title. For the purposes of this subsection, distributions shall
12 not include loans to units of general local government. The
13 State shall distribute amounts allocated to it consistent with
14 the statement submitted under section 104(a) and shall be
15 responsible for the administration of funds so distributed.

16 “(B) Any amounts appropriated for fiscal year 1985 or
17 prior fiscal years which were available for distribution under
18 this subsection by the Secretary immediately before the effec-
19 tive date of the Housing and Community Development
20 Amendments of 1985 shall be distributed by the Secretary in
21 accordance with the provisions of this subsection as they ex-
22 isted immediately before such effective date, except that
23 amounts which are not obligated by January 1, 1986, (i)
24 shall be added to amounts allocated to the State under para-
25 graph (1) for fiscal year 1986, or (ii) if the State does not

1 elect to receive a grant for fiscal year 1986, shall be deposit-
2 ed in miscellaneous receipts of the Treasury of the United
3 States.”.

4 (4) Section 106(d)(3)(A) is amended by striking out the
5 first sentence.

6 (5) Section 106(d)(3) of such Act is amended by—

7 (A) striking out subparagraph (B) and redesignat-
8 ing subparagraphs (C) and (D) as subparagraphs (B)
9 and (C), respectively; and

10 (B) inserting in subparagraph (C), as redesignated
11 by paragraph (6)(A) of this subsection, “(i)” before
12 “shall be added” and inserting immediately before the
13 period at the end thereof the following: “or (ii) if the
14 State does not receive a grant for such year, shall be
15 deposited in miscellaneous receipts of the Treasury of
16 the United States”.

17 (6) Section 106(d)(5) of such Act is amended by striking
18 out “or the Secretary”.

19 (d) Section 106(d)(2) of such Act is amended by—

20 (1) striking out in subparagraph (C) “the Gover-
21 nor must certify that the State” and inserting in lieu
22 thereof “the State must certify that it”; and

23 (2) striking out in subparagraph (D) “the Gover-
24 nor of each State” and inserting in lieu thereof “the
25 State”.

1 **ENTITLEMENT TRANSITION**

2 **SEC. 105. (a) Section 102(a) of the Housing and Com-**
3 **munity Development Act of 1974 is amended by—**

4 (1) striking out the second sentence in paragraph
5 (6);

6 (2) amending paragraph (7) to read as follows:

7 “(7) The term ‘nonentitlement area’ means an
8 area which is not a metropolitan city, part of an urban
9 county, or a city or a county which is eligible to re-
10 ceive a grant under section 106(b)(7)(B) or (b)(8) in the
11 first year of such eligibility.”; and

12 (3) amending paragraph (12) to read as follows:

13 “(12) The term ‘extent of growth lag’ means the
14 number of persons who would have been residents in a
15 city or a county eligible to receive a grant under sec-
16 tion 106(b), in excess of the current population of such
17 city or county, if such city or county had had a popula-
18 tion growth rate between 1960 and the date of the
19 most recent population count referable to the same
20 point or period in time equal to the population growth
21 rate for such period of all metropolitan cities.”.

22 (b) The first two sentences of section 104(a)(1) of such
23 **Act are each amended by striking out “metropolitan” and**
24 **“urban” each time they appear.**

1 (c) Section 105(c)(2)(B) of such Act is amended by strik-
2 ing out “metropolitan city or urban county” and inserting in
3 lieu thereof “a city or county eligible to receive a grant under
4 section 106(b)”.

5 (d) Section 106(a) of such Act is amended by—

6 (1) striking out “metropolitan cities and urban
7 counties” in the first sentence and inserting in lieu
8 thereof the following: “metropolitan cities, urban coun-
9 ties, and cities and counties eligible to receive a grant
10 under subsection (b) (7) or (8)”;

11 (2) striking out “metropolitan city and urban
12 county” in the second sentence and inserting in lieu
13 thereof the following: “metropolitan city, urban county,
14 and city and county eligible to receive a grant under
15 subsection (b) (7) or (8)”.

16 (e) Section 106(b) of such Act is amended by—

17 (1) inserting after “each metropolitan city” in
18 paragraph (1) the following: “and each city eligible to
19 receive a grant under paragraph (7)”;

20 (2) inserting after “metropolitan cities” in para-
21 graph (1)(B)(i) the following: “and all cities eligible to
22 receive a grant under paragraph (7)”;

23 (3) inserting at the end of paragraph (1) the fol-
24 lowing new sentence: “Values for population, extent of
25 poverty, extent of housing overcrowding, extent of

1 growth lag, and age of housing used in determining
2 ratios under this paragraph shall be reduced by 50 per-
3 cent for cities eligible to receive a grant under para-
4 graph (7)(A), and for cities eligible to receive a grant
5 under paragraph (7)(B) in their second year of eligibil-
6 ity thereunder.”;

7 (4) inserting after “each urban county” in para-
8 graph (2) the following: “and each county eligible to
9 receive a grant under paragraph (8)”;

10 (5) striking out “urban” each time it appears in
11 paragraphs (2)(A), (2)(B) (ii) and (iii);

12 (6) amending clause (i) of paragraph (2)(B) to read
13 as follows:

14 “(i) The extent of growth lag in that county
15 and the extent of growth lag in all metropolitan
16 cities, all cities eligible to receive a grant under
17 paragraph (7), all urban counties, and all counties
18 eligible to receive a grant under paragraph (8);”;

19 (7) inserting at the end of paragraph (2) the fol-
20 lowing new sentence: “Values for population, extent of
21 poverty, extent of housing overcrowding, extent of
22 growth lag, and age of housing used in determining
23 ratios under this paragraph shall be reduced by 50 per-
24 cent for counties eligible to receive a grant under

1 paragraph (8) in their second year of eligibility
2 thereunder.”;

3 (8) in the first sentence of paragraph (4), inserting
4 after “urban county” the first time it appears the fol-
5 lowing: “or county eligible to receive a grant under
6 paragraph (8)”, and striking out “urban” each time it
7 appears thereafter;

8 (9) in paragraph (5), inserting after “urban
9 county” the first time it appears “or county eligible to
10 receive a grant under paragraph (8)”, and striking out
11 “urban” each time it appears thereafter; and

12 (10) adding the following two new paragraphs
13 after paragraph (6):

14 “(7)(A) Any city that qualified as a metropolitan city for
15 fiscal year 1985 by reason of the second sentence of section
16 102(a)(4), but that does not qualify as a metropolitan city
17 under that section for fiscal year 1986, shall be eligible to
18 receive a grant computed under paragraph (1) based on 50
19 percent of the values considered in the formulas under that
20 paragraph for fiscal year 1986. A city that is eligible under
21 this subparagraph shall also be eligible to receive a distribu-
22 tion from the State allocation under section 106(d) for fiscal
23 year 1986. A city that is eligible to receive a grant under this
24 subparagraph, but that elects to have its population included

1 in an urban county for fiscal year 1986 shall not receive an
2 allocation under this subparagraph.

3 “(B) Any city that loses its classification as a metropoli-
4 tan city by reason of a loss of population or revisions in the
5 designations of metropolitan areas or central cities and that
6 does not qualify under subparagraph (A) shall be eligible to
7 receive a grant computed under paragraph (1) for the 2 fiscal
8 years immediately following the last fiscal year in which it so
9 qualified. In the first year, the grant shall be based on 100
10 percent of the values considered in the formulas under para-
11 graph (1). In the second year, the grant shall be based on 50
12 percent of the values considered in the formulas under para-
13 graph (1). A city that is eligible to receive a grant under this
14 subparagraph shall also be eligible for a distribution from the
15 State allocation under section 106(d) for the second (but not
16 first) year of eligibility under this subparagraph. A city that is
17 eligible to receive an allocation under this subparagraph, but
18 that elects to have its population included in an urban county,
19 shall not receive a grant under this subparagraph. No city
20 that receives a grant under this subparagraph for its first
21 year of eligibility for such funding may elect to have its popu-
22 lation included in an urban county for its second year of such
23 eligibility.

24 “(8) Any county that loses its classification as an urban
25 county under section 102(a)(6) by reason of a loss of popula-

tion (including the classification of a previously included area as a metropolitan city), other than by reason of the election of any unit of general local government included in such county to have its population excluded under section 102(a)(6)(B)(i) or to not renew a cooperation agreement under section 102(a)(6)(B)(ii), shall be eligible to receive a grant computed under paragraph (2) for the 2 fiscal years immediately following the last fiscal year in which it so qualified, if the county otherwise meets the requirements of section 102(a)(6)(A) and all units of general local government (except metropolitan cities) located within such county, which could participate with the county, elect to participate with the county for such 2-year period. In the first year, the grant shall be based on 100 percent of the values considered in the formulas under paragraph (2). In the second year, the grant shall be based on 50 percent of the values considered in the formulas under paragraph (2). A county that is eligible to receive a grant under this paragraph, and each of its participating units of general local government, shall also be eligible to receive a distribution from the State allocation under section 106(d) for the second (but not first) year of eligibility of the county under this paragraph.”.

(f) Section 106(c)(1) of such Act is amended by—

(1) striking out in the first sentence “metropolitan city or an urban county” and inserting in lieu thereof

1 “city or a county eligible to receive a grant under sub-
2 section (b)”; and

3 (2) inserting at the end thereof the following new
4 sentence: “Notwithstanding the foregoing, no reallo-
5 cated funds shall be awarded to a city or county eligi-
6 ble to receive a grant under subsection (b) (7) or (8).”.

7 (g) Section 106(d)(1) of such Act is amended by insert-
8 ing at the end thereof the following new sentence: “If a city
9 or county is eligible to receive a grant under section 106(b)
10 (7) or (8) based on 50 percent of the values for population,
11 extent of poverty, extent of housing overcrowding, and age of
12 housing, the remaining 50 percent of such values shall be
13 added to the values for nonentitlement areas in the State in
14 which such city or county is located.”.

15 (h) Section 106(f) of such Act is amended to read as
16 follows:

17 “(f) If the total amount available for distribution in any
18 fiscal year to cities and counties eligible to receive grants
19 under subsection (b) is insufficient to provide the amounts to
20 which they would be entitled under that subsection, and
21 funds are not otherwise appropriated to meet the deficiency,
22 the Secretary shall meet the deficiency through a pro rata
23 reduction of all amounts determined under that subsection. If
24 the total amount available for distribution in any fiscal year
25 to cities and counties eligible to receive grants under subsec-

1 tion (b) exceeds the amounts to which they would be entitled
2 under that subsection, the Secretary shall distribute the
3 excess through a pro rata increase of all amounts determined
4 under that subsection.”.

5 MISCELLANEOUS AND TECHNICAL AMENDMENTS

6 SEC. 106. (a) Section 106(d)(3)(A) of the Housing and
7 Community Development Act of 1974 is amended by striking
8 out “\$102,000” and inserting in lieu thereof “\$100,000”.

9 (b) Section 113 of such Act is amended to read as
10 follows:

11 “SEC. 113. (a) Not later than 180 days after the close of
12 fiscal year 1985 and of every period of 3 fiscal years thereaf-
13 ter in which assistance under this title is furnished, the Sec-
14 retary shall submit to the Congress a report that shall
15 contain—

16 “(1) a description of the progress made in accom-
17 plishing the objectives of this title; and

18 “(2) a summary of the use of such assistance
19 during the preceding reporting period.

20 “(b) With respect to grants under section 119, as it ex-
21 isted immediately before the effective date of section 107 of
22 the Housing and Community Development Amendments of
23 1985, the report required by subsection (a) for fiscal year
24 1985 shall contain a listing of each unit of general local gov-
25 ernment receiving funds and the amount of such grants, as
26 well as a brief summary of the projects funded for each such

1 unit, the extent of financial participation by other public or
2 private entities, and the impact on employment and economic
3 activity of such projects during such fiscal year. The report
4 for fiscal year 1985 shall constitute the final report on activi-
5 ties under such section 119.

6 “(c) The Secretary is authorized to require recipients of
7 assistance under this title to submit such reports and other
8 information as may be necessary in order for the Secretary to
9 make the report required by this section.”.

10 **MISCELLANEOUS REPEALERS**

11 **SEC. 107. (a)(1)** Section 104(g) of the Housing and
12 Community Development Act of 1974 is hereby repealed.

13 (2) On or after the effective date of this section, no re-
14 volving loan fund may be established or extended under sec-
15 tion 104(g), as it existed immediately before such effective
16 date.

17 (3) Any revolving loan fund established under section
18 104(g), as it existed immediately before the effective date of
19 this section, shall continue to be governed by the provisions
20 of such section 104(g).

21 (b)(1) Section 107(b) of such Act is amended by striking
22 out paragraph (1) and redesignating the remaining para-
23 graphs accordingly.

24 (2) On or after the effective date of this section, no grant
25 may be made under section 107(b)(1), as it existed immedi-
26 ately before such effective date.

1 (3) Any grant made under section 107(b)(1), as it existed
2 immediately before the effective date of this section, shall
3 continue to be governed by the provisions of such section
4 107(b)(1).

5 (c)(1) Section 108 of such Act is hereby repealed.

6 (2) On or after the effective date of this section, no guar-
7 antee may be made under section 108, as it existed immedi-
8 ately before such effective date, except pursuant to a commit-
9 ment to guarantee made before such effective date.

10 (3) Any guarantee made under section 108, as it existed
11 immediately before the effective date of this section, shall
12 continue to be governed by the provisions of such section
13 108.

14 (4) The second sentence of section 101(c) and section
15 104(b)(3) of such Act are each amended by inserting after
16 "section 108" the following: "(as such section existed imme-
17 diately before the effective date of section 107 of the Housing
18 and Community Development Amendments of 1985)".

19 (d)(1)(A) Sections 119 and 121 of such Act are hereby
20 repealed.

21 (B) The first sentence of sections 106 (a) and (d)(1) of
22 such Act is amended by striking out "and section 119" each
23 place it appears.

24 (C) Sections 107(d) (1) and (2) of such Act are each
25 amended by striking out "or section 119".

1 (D) Section 102(a) is amended by striking out para-
2 graphs (13), (14), (15), (16) and redesignating the remaining
3 paragraphs accordingly.

4 (2) No grant may be made under section 119, as it exist-
5 ed immediately before the effective date of this section, after
6 the grants awarded for large cities and urban counties for
7 which the decision date under section 570.460 of title 24,
8 Code of Federal Regulations, is September 30, 1985.

9 (3) Any grant made under section 119, as it existed im-
10 mediately before the effective date of this section, shall con-
11 tinue to be governed by the provisions of sections 102(a) (13),
12 (14), (15), and (16), 107(d), 119, and 121 of such Act, as
13 they existed immediately before such effective date.

14 (4) Any amounts that, in the absence of this subsection,
15 would have been available for making grants under section
16 119 of such Act on or after the effective date of this section
17 shall be rescinded.

18 (5) Clause (ii) of the penultimate sentence of section
19 235(h)(1) of the National Housing Act is amended by insert-
20 ing after "1974" the following: "(as such section existed im-
21 mediately before the effective date of section 107 of the
22 Housing and Community Development Amendments of
23 1985)".

24 (e)(1) Section 312 of the Housing Act of 1964 is hereby
25 repealed, except that the first and second sentences of section

1 312(d) shall remain in effect until September 30, 1986, or
2 until the assets and liabilities of the revolving fund under
3 such section are transferred to the Revolving Fund (liquidat-
4 ing programs) established under title II of the Independent
5 Offices Appropriation Act, 1955, whichever is earlier. All
6 monies in the Revolving Fund (liquidating programs) shall be
7 made available for necessary expenses of servicing and liqui-
8 dating loans made under section 312, including reimburse-
9 ment or payment for services and facilities of the Govern-
10 ment National Mortgage Association and of any public or pri-
11 vate entity for the servicing or liquidation of such loans.

12 (2) On or after the effective date of this section, no loan
13 may be approved under section 312, as it existed immediately
14 before such effective date.

15 (3) Any loan approved under section 312, as it existed
16 immediately before the effective date of this section, shall
17 continue to be governed by the provisions of such section
18 312.

19 (f) This section shall become effective on the later of
20 October 1, 1985, or the date of enactment of this Act.

21 URBAN HOMESTEADING

22 SEC. 108. (a) The first sentence of section 810(k) of the
23 Housing and Community Development Act of 1974 is
24 amended by striking out "fiscal year 1984, and such sums as
25 may be necessary for fiscal year 1985" and inserting in lieu

1 thereof the following: "each of fiscal years 1984, 1985,
2 1986, and 1987".

3 (b) Section 810 of such Act is amended by—

4 (1) inserting after "without any substantial consid-
5 eration" in subsection (b)(1) the following: "in the case
6 of a lower income individual or family, as determined
7 in accordance with section 3(b)(2) of the United States
8 Housing Act of 1937 or for such consideration, if any,
9 as may be agreed upon by the entity and the individual
10 or family, in the case of an individual or family which
11 is not lower income";

12 (2) striking out "and" the first time it appears in
13 subsection (b)(2) and inserting in lieu thereof a comma;

14 (3) inserting immediately before the semicolon at
15 the end of subsection (b)(2) the following: ", and ability
16 to pay any consideration agreed upon in connection
17 with conveyance of the property";

18 (4) striking out "and" at the end of subsection
19 (b)(3)(C) and inserting "and" after the semicolon at the
20 end of subsection (b)(3)(D);

21 (5) adding the following new clause (E) at the end
22 of subsection (b)(3)(D):

23 "(E) pay the agreed upon consideration for
24 the property,";

9 "Any unit of general local government, State or agency des-
10 ignated by a unit of general local government or a State,
11 which receives consideration in connection with the convey-
12 ance of a property to an individual or family under this sec-
13 tion, shall remit to the Secretary any amounts received in
14 such manner and at such time or times as the Secretary may
15 prescribe. The Secretary shall deposit in miscellaneous re-
16 ceipts of the Treasury of the United States any amounts so
17 remitted."

18 **EFFECTIVE DATE**

19 SEC. 109. The amendments made by sections 101
20 through 106 shall apply only with respect to funds available
21 for fiscal year 1986 and thereafter.

1 **TITLE II—HOUSING ASSISTANCE PROGRAMS**2 **PART A—GENERAL**3 **ANNUAL CONTRIBUTIONS FOR LOWER INCOME HOUSING**
4 **PROJECTS**

5 SEC. 201. (a) Section 5(c) of the United States Housing
6 Act of 1937 is amended by adding at the end thereof the
7 following new paragraph:

8 “(8) The aggregate amount of budget authority that
9 may be obligated for contracts for annual contributions is in-
10 creased by \$499,000,000 on October 1, 1985, and by such
11 sums as may be approved in appropriation Acts on October
12 1, 1986. During fiscal year 1986, the Secretary shall not
13 enter into contracts providing for more than \$175,000,000 in
14 the aggregate of budget authority for comprehensive im-
15 provement assistance under section 14, and no contract shall
16 be entered into for purposes other than to meet emergencies
17 for which assistance under section 14 may be used. The Sec-
18 retary may enter into contracts for annual contributions in,
19 and the aggregate authority to enter into such contracts is
20 increased by, such amounts as are consistent with the forego-
21 ing increase in budget authority.”.

22 (b) Section 9(c) of such Act is amended by striking out
23 “on or after October 1, 1984” and inserting in lieu thereof
24 “thereafter”.

1 PREVENTING FRAUD AND ABUSE IN THE DEPARTMENT OF
2 HOUSING AND URBAN DEVELOPMENT PROGRAMS

3 SEC. 202. (a) As a condition of initial or continuing eli-
4 gibility for participation in any program of the Department of
5 Housing and Urban Development involving loans, grants, in-
6 terest or rental assistance of any kind, or mortgage or loan
7 insurance, and to assure that the level of benefits provided
8 under such programs is proper, the Secretary may require
9 that an applicant or participant (including members of an ap-
10 plicant's or participant's household) disclose his or her social
11 security number or employer identification number to the
12 Secretary.

13 (b) As a condition of initial or continuing eligibility for
14 participation in any program of the Department of Housing
15 and Urban Development involving initial and periodic review
16 of an applicant's or participant's income, and to assure that
17 the level of benefits provided under such programs is proper,
18 the Secretary may require that an applicant or participant
19 (including members of an applicant's or participant's house-
20 hold) sign a consent form approved by the Secretary author-
21 izing (1) the Secretary, or the public housing agency or
22 owner responsible for determining eligibility or level of bene-
23 fits, to verify the information furnished by the applicant or
24 participant, and (2) any Federal, State, or local agency or
25 private person or entity to release information related to the

1 determination of eligibility and benefit level. The information
2 may include, but is not limited to, data concerning wages (not
3 including return information as defined in section 6103(b)(2)
4 of title 26, United States Code), unemployment compensa-
5 tion, benefits made available under the Social Security Act,
6 and veterans benefits under title 38, United States Code.
7 Any individually identifiable information received by the Sec-
8 retary under this section shall be subject to the requirements
9 of section 552a of title 5, United States Code. An applicant
10 or participant shall have the right to obtain, examine, and
11 correct any information which the Secretary, public housing
12 agency or owner responsible for determining eligibility or
13 level of benefits has received under this section, unless a
14 criminal investigation is pending.

15 (c) As used in this section—

16 (1) the term “Secretary” means the Secretary of
17 Housing and Urban Development;

18 (2) the term “applicant” shall have such meaning
19 as the Secretary by regulation shall prescribe; and

20 (3) the term “public housing agency” means any
21 agency described in section 3(b)(6) of the United States
22 Housing Act of 1937.

23 (d) Section 303 of the Social Security Act is amended
24 by adding at the end thereof the following new subsection:

1 “(g)(1) The State agency charged with the administra-
2 tion of the State law—

3 “(A) shall disclose, upon request and on a reim-
4 bursable basis, to officers or employees of the Depart-
5 ment of Housing and Urban Development and to offi-
6 cers or employees of any public housing agency respon-
7 sible for determining the eligibility and level of bene-
8 fits of particular applicants or participants (including
9 members of an applicant’s or participant’s household),
10 and of the following information contained in the
11 records of the State agency—

12 “(i) wage information, not including return
13 information as defined in section 6103(b)(2) of title
14 26, United States Code,

15 “(ii) whether an individual is receiving, has
16 received, or has made application for, unemploy-
17 ment compensation, and the amount of any such
18 compensation being received (or to be received) by
19 the individual, and

20 “(iii) the current (or most recent) home ad-
21 dress of the individual, and

22 “(B) shall establish such safeguards as are neces-
23 sary (as determined by the Secretary of Labor in regu-
24 lations) to insure that information disclosed under sub-
25 paragraph (A) is used only for purposes of determining

1 an individual's eligibility for benefits, or the amount of
2 benefits, under the programs of the Department of
3 Housing and Urban Development.

4 “(2) Whenever the Secretary of Labor, after reasonable
5 notice and opportunity for hearing to the State agency
6 charged with the administration of the State law, finds that
7 there is failure to comply substantially with the requirements
8 of paragraph (1), the Secretary of Labor shall notify the State
9 agency that further payments will not be made to the State
10 until such Secretary is satisfied that there is no longer any
11 failure to comply. Until the Secretary of Labor is satisfied,
12 such Secretary shall make no further certification to the Sec-
13 retary of the Treasury with respect to the State.”.

14 REVISED DEFINITION OF DISABILITY

15 SEC. 203. (a) Clause (A) of the first sentence of section
16 3(b)(3) of the United States Housing Act of 1937 is amended
17 by striking out “section 102 of the Developmental Disabil-
18 ities Services and Facilities Construction Amendments of
19 1970” and inserting in lieu thereof “section 102(7) of the
20 Developmentally Disabled Assistance and Bill of Rights
21 Act”.

22 (b) The third sentence of section 202(d)(4) of the Hous-
23 ing Act of 1959 is amended by striking out “section 102(5) of
24 the Developmental Disabilities Services and Facilities Con-
25 struction Amendments of 1950” and inserting in lieu thereof

1 "section 102(7) of the Developmentally Disabled Assistance
2 and Bill of Rights Act".

3 **PART B—PUBLIC AND INDIAN HOUSING**

4 **PUBLIC AND INDIAN HOUSING FINANCING REFORMS**

5 **SEC. 211.** (a) Section 4(a) of the United States Housing
6 Act of 1937 is amended by adding at the end thereof the
7 following new sentence: "The Secretary shall not make any
8 commitment to make a loan under this subsection except with
9 respect to a lower income housing project for which funding
10 has been reserved before October 1, 1986."

11 (b) Section 4 of such Act is amended by adding at the
12 end thereof the following new subsection:

13 "(c)(1) At such times as the Secretary may determine,
14 and in accordance with such accounting and other procedures
15 as the Secretary may prescribe, each loan made by the Sec-
16 retary pursuant to subsection (a) that has any principal
17 amount outstanding or any interest amount outstanding or
18 accrued shall be forgiven; the terms and conditions of any
19 contract, or any amendment to a contract, for such loan with
20 respect to any promise to repay such principal and interest
21 shall be canceled. This cancellation shall not affect any other
22 terms and conditions of such contract, which shall remain in
23 effect as if the cancellation had not occurred. This paragraph
24 shall not apply to any loan, the repayment of which was not
25 to be made using annual contributions, or to any loan, all or

1 part of the proceeds of which are due a public housing agency
2 from contractors or others.

3 “(2)(A) On September 30, 1985, or on the date of the
4 enactment of the Housing and Community Development
5 Amendments of 1985 into law, whichever is later, each note
6 or other obligation issued by the Secretary to the Secretary
7 of the Treasury pursuant to subsection (b), together with any
8 promise to repay the principal and unpaid interest which has
9 accrued on each obligation, is forgiven; and any other term or
10 condition specified by each such obligation is canceled.

11 “(B) On September 30, 1986, and on any subsequent
12 September 30, each such note or other obligation issued by
13 the Secretary pursuant to subsection (b) during the fiscal year
14 ending that day, together with any such promise to repay,
15 shall be forgiven; and any other term or condition specified
16 by each such obligation shall be canceled.”.

17 (c) Section 5 of such Act is amended by—

18 (1) striking out “ANNUAL” in the section heading;

19 (2) striking out subsection (a) and inserting in lieu
20 thereof the following:

21 “(a)(1) The Secretary may make annual contributions to
22 public housing agencies to assist in achieving and maintaining
23 the lower income character of their projects. The Secretary
24 shall embody the provisions for such annual contributions in a
25 contract guaranteeing their payment. The contribution pay-

1 able annually under this section shall in no case exceed a sum
2 equal to the annual amount of principal and interest payable
3 on obligations issued by the public housing agency to finance
4 the development or acquisition cost of the lower income
5 project involved. Annual contributions payable under this
6 section shall be pledged, if the Secretary so requires, as secu-
7 rity for obligations issued by a public housing agency to assist
8 the development or acquisition of the project to which annual
9 contributions relate and shall be paid over a period not to
10 exceed 40 years. The Secretary shall not enter into a con-
11 tract guaranteeing the payment of annual contributions under
12 this section with respect to public housing projects, except
13 with respect to a project for which funding has been reserved
14 before October 1, 1986.

15 “(2)(A) On an after October 1, 1987, the Secretary may
16 make one-time capital contributions to public housing agen-
17 cies to cover the development cost of public housing projects.
18 The contract under which such contributions shall be made
19 shall specify the amount of capital contributions required for
20 each project to which the contract pertains, and the period
21 (not to exceed 40 years) during which the terms and condi-
22 tions of such contract shall remain in effect.

23 “(B) There are authorized to be appropriated such sums
24 as may be necessary to carry out the purposes of subpara-
25 graph (A).

1 “(3) The amount of contributions which would be estab-
2 lished for a newly constructed project by a public housing
3 agency designed to accommodate a number of families of a
4 given size and kind may be established under this section for
5 a project by such public housing agency which would provide
6 housing for the comparable number, sizes, and kinds of fami-
7 lies through the acquisition and rehabilitation, or use under
8 lease, of structures which are suitable for lower income hous-
9 ing use and obtained in the local market.”; and

10 (3) striking out “annual” in subsection (e)(2).

11 (d) Section 6 of such Act is amended by—

12 (1) inserting “The” immediately before “Secre-
13 tary” in the first sentence of subsection (a); and

14 (2) striking out “annual” the first time it appears
15 in the first sentence of subsection (g), and each place it
16 appears in subsection (d) and the first sentence of each
17 of subsections (a), (b), and (c).

18 (e) Section 7 of such Act is amended by—

19 (1) striking out “annual” in the proviso in the
20 first sentence; and

21 (2) striking out “low-rent” each time it appears in
22 the second sentence and inserting in lieu thereof
23 “public”.

24 (f) Section 9(a)(2) of such Act is amended by—

1 (1) striking out "being assisted by an annual con-
2 tributions contract authorized by section 5(c)" and in-
3 serting in lieu thereof "one developed pursuant to a
4 contributions contract authorized by section 5"; and

5 (2) striking out "any such annual" and inserting
6 in lieu thereof "any such".

7 (g) Section 12 of such Act is amended by striking out
8 "annual".

9 (h) Section 14 of such Act is amended by—

10 (1) striking out "receive assistance under section
11 5(c)" in subsection (c)(2) and inserting in lieu thereof
12 "assisted under section 5"; and

13 (2) striking out "annual" in each of paragraphs
14 (2) and (4)(C) of subsection (d).

15 (i) Section 15 of such Act is amended by striking out
16 "with loans or debt service annual contributions" in clause
17 (2).

18 (j) Section 16(b) of such Act is amended by striking out
19 "annual".

20 (k)(1) Section 18(a)(2)(B) of such Act is amended by—

21 (A) inserting immediately before "the net pro-
22 ceeds" the following: "except as otherwise provided by
23 this subparagraph,"; and

24 (B) inserting immediately before the period at the
25 end thereof the following: "; in the case of a public

1 housing project financed under section 5(a)(2) or with
2 respect to which a loan made under section 4(a) was
3 forgiven under section 4(c), the net proceeds of the dis-
4 position will be used in a manner prescribed by the
5 Secretary in regulations, which shall be comparable (as
6 determined by the Secretary, taking into account that
7 the indebtedness was forgiven or a different financing
8 method was used, as appropriate) to the requirements
9 for the use of such net proceeds applicable to other
10 public housing projects under this subparagraph”.

11 (2) Section 18(c) of such Act is amended by striking out
12 “annual contributions authorized under section 5(c)” and in-
13 serting in lieu thereof “contributions authorized under section
14 5”.

15 **EXEMPTION OF PUBLIC HOUSING HOMEOWNERSHIP PRO-**
16 **GRAMS FROM PROVISIONS PERTAINING TO RENTS**
17 **PAYABLE BY TENANTS**

18 SEC. 212. Section 3(a) of the United States Housing
19 Act of 1937 is amended by inserting after “under section
20 8(o)” in the final sentence the following: “or under a public
21 housing homeownership program”.

22 **PUBLIC HOUSING AGENCY RECEIVERSHIP**

23 SEC. 213. Section 6 of the United States Housing Act
24 of 1937 is amended by—

25 (1) redesignating subsection (g) as subsection (f);
26 and

1 (2) adding the following new subsection:

2 “(g) Notwithstanding any other provision of this Act or
3 of any contract for annual contributions, upon the occurrence
4 of events or conditions which, in the opinion of the Secretary,
5 constitute a substantial default in respect to the covenants or
6 conditions to which the public housing agency is subject, the
7 Secretary may petition for the appointment of a receiver of
8 the public housing agency to any district court of the United
9 States or to any court of the State or District of Columbia in
10 which the real property of the public housing agency is situ-
11 ated which is authorized under the laws of such jurisdiction
12 to appoint a receiver for the purposes and having the powers
13 prescribed herein. Upon a determination that such a substan-
14 tial default has occurred, and without regard to the availabil-
15 ity of alternative remedies, the court shall appoint a receiver
16 to conduct the affairs of the public housing agency in a
17 manner consistent with this Act and in accordance with such
18 further terms and conditions as the court shall provide. The
19 court shall have power to grant appropriate temporary or
20 preliminary relief pending final disposition of the petition by
21 the Secretary. The appointment of a receiver shall be termi-
22 nated upon the petition of the Secretary or when the court
23 determines that all defaults have been cured and that the
24 projects of the public housing agency will thereafter be oper-
25 ated by the public housing agency in accordance with the

1 covenants and conditions to which the public housing agency
2 is subject.”.

3 **PART C—OTHER ASSISTED HOUSING**

4 **AUTHORIZATION FOR INCREASING BORROWING AUTHOR-**
5 **ITY FOR DIRECT LOANS FOR HOUSING FOR THE EL-**
6 **DERLY OR HANDICAPPED**

7 **SEC. 221.** The first sentence of section 202(a)(4)(B)(i) of
8 the Housing Act of 1959 is amended by striking out “such
9 sum as may be approved in an appropriation Act on October
10 1, 1984” and inserting in lieu thereof “such sums as may be
11 approved in appropriation Acts thereafter”.

12 **ESTABLISHMENT OF SECTION 8 FAIR MARKET RENTS FOR**
13 **EXISTING HOUSING**

14 **SEC. 222.** Notwithstanding the requirement to establish
15 fair market rents at least annually under section 8(c)(1) of the
16 United States Housing Act of 1937, the Secretary of Hous-
17 ing and Urban Development shall not establish fair market
18 rents for section 8 existing housing for fiscal year 1986. The
19 fair market rents established for fiscal year 1985 shall contin-
20 ue in effect for fiscal year 1986. Establishment of fair market
21 rents in accordance with section 8(c)(1) shall resume begin-
22 ning with the fair market rents for fiscal year 1987.

23 **PERMANENT HOUSING VOUCHER PROGRAM; REPEAL OF**
24 **MODERATE REHABILITATION PROGRAM**

25 **SEC. 223.** (a) Section 8(o) of the United States Housing
26 Act of 1937 is amended by—

1 (1) striking out "In connection with" and all that
2 follows through "demonstration program" in the first
3 sentence of paragraph (1) and inserting in lieu thereof
4 "Notwithstanding the provisions of subsection (c), the
5 Secretary is authorized to provide assistance"; and

6 (2) striking out paragraph (4) and redesignating
7 the remaining paragraphs accordingly.

8 (b) Section 8(c)(1) of such Act is amended by inserting
9 after the third sentence the following new sentence: "The
10 Secretary shall increase the maximum monthly rental above
11 the amount of assistance otherwise permitted by this para-
12 graph, if the Secretary determines that such increase is nec-
13 essary to assist in the sale of multifamily housing projects
14 owned by the Secretary."

15 (c)(1) Section 8 of such Act is amended by—

16 (A) striking out in subsection (e) "(e)(1)" and in-
17 serting in lieu thereof "(e)";

18 (B) striking out subsection (e)(2);

19 (C) striking out in subsection (n) "subsections
20 (b)(1) and (e)(2)" and inserting in lieu thereof "subsec-
21 tion (b)(1)"; and

22 (D) striking out in subsection (p) "and moderate
23 rehabilitation programs" and inserting in lieu thereof
24 "program".

1 (2) On or after the effective date of this subsection, no
2 contract may be entered into under section 8(e)(2), as it exist-
3 ed immediately before such effective date, except pursuant to
4 a commitment to contract made before such effective date.

5 (3) Any contract made under section 8(e)(2), as it exist-
6 ed immediately before the effective date of this subsection,
7 shall continue to be governed by the provisions of such sec-
8 tion 8(e)(2).

9 (4) This subsection shall become effective on the later of
10 October 1, 1985, or the date of enactment of this Act.

11 (d) Section 5(e) of such Act is amended by striking out
12 clause (v) in each of paragraphs (7)(A) and (B) and redesign-
13 nating the remaining clauses accordingly.

14 USE OF HOUSING VOUCHERS IN CONNECTION WITH
15 RENTAL REHABILITATION

16 SEC. 224. The first sentence of section 8(o)(3) of the
17 United States Housing Act of 1937 is amended by—

18 (1) striking out “or” before “(C)”; and

19 (2) inserting before the period at the end thereof
20 the following: “, or (D) a family residing in a project
21 being rehabilitated under section 17 that is determined
22 to be a lower income family at the time it initially re-
23 ceives assistance and whose rent after rehabilitation
24 would exceed 30 percent of the family’s monthly ad-
25 justed income”.

1 **ALLOCATION AND USE OF HOUSING ASSISTANCE**

2 **SEC. 225. (a)** Section 213 of the Housing and Commu-
3 nity Development Act of 1974 is amended by striking out the
4 section heading and subsections (a) through (c) and inserting
5 in lieu thereof the following:

6 **"ALLOCATION AND USE OF HOUSING ASSISTANCE**

7 **"SEC. 213. (a)** This section shall apply to the allocation
8 and use of housing assistance made available under the
9 United States Housing Act of 1937, section 235 or 236 of
10 the National Housing Act, section 101 of the Housing and
11 Urban Development Act of 1965, or section 202 of the
12 Housing Act of 1959.

13 **"(b)** The Secretary of Housing and Urban Development
14 shall not approve an application for housing assistance re-
15 ferred to in subsection (a) unless the Secretary determines
16 that there is a need for such assistance and that there are or
17 will be available in the area public facilities and services ade-
18 quate to serve the housing proposed to be assisted. The Sec-
19 retary shall give the unit of general local government in
20 which the assistance is to be provided an opportunity, during
21 a 30-day period following the Secretary's receipt of the appli-
22 cation for assistance, to provide comments or information rel-
23 evant to the Secretary's determination.

24 **"(c)** The provisions of subsection (b) shall not apply to
25 applications for assistance involving twelve or fewer housing
26 units in a single project or development."

1 (b) Section 213(d)(2) of such Act is amended to read as
2 follows:

3 “(2) In allocating assistance under paragraph (1), the
4 Secretary shall allocate not less than 20 percent nor more
5 than 25 percent of the total assistance available in any fiscal
6 year to nonmetropolitan areas, except that beginning on or
7 after October 1, 1987, the Secretary shall allocate not to
8 exceed 50 percent of such assistance to metropolitan areas
9 and not to exceed 50 percent of such assistance to nonmetro-
10 politan areas.”.

11 (c) Section 213(d)(3) of such Act is amended by striking
12 out “he” and inserting in lieu thereof “the Secretary”.

13 (d) Section 213(d)(4) of such Act is amended by—

14 (1) striking out “(a)(1)” in the first sentence and
15 inserting in lieu thereof “(a)”;

16 (2) revising clause (E) to read as follows:

17 “(E) projects approved by the Secretary to meet
18 lower income housing needs; and”; and

19 (3) striking out in clause (F) “lower-income” and
20 inserting in lieu thereof “lower income”.

21 **TENANT ELIGIBILITY DETERMINATIONS IN RENT**

22 **SUPPLEMENT PROJECTS**

23 **SEC. 226.** Section 101 of the Housing and Urban De-
24 velopment Act of 1965 is amended by—

25 (1) striking out the second sentence of subsection
26 (e)(1); and

1 (2) striking out subsection (k) and inserting the
2 following in lieu thereof:

3 “(k) In making tenant selection decisions in accordance
4 with eligibility criteria and procedures established under sub-
5 section (e)(1) of this section, the project owner shall give pri-
6 ority to individuals or families who are occupying substand-
7 ard housing, are paying more than 50 percent of family
8 income for rent, or are involuntarily displaced at the time
9 they are seeking housing assistance under this section.”.

10 **REPEAL OF REQUIREMENT FOR SIGNIFICANT COMMUNITY**
11 **REPRESENTATION ON GOVERNING BOARDS OF SEC-**
12 **TION 202 PROJECTS**

13 **SEC. 227.** Section 202(d)(2) of the Housing Act of 1959
14 is amended by striking out “(B) which has” and all that fol-
15 lows through “and (C)” and inserting in lieu thereof “and
16 (B)”.

17 **TECHNICAL AMENDMENTS TO THE UNITED STATES**

18 **HOUSING ACT OF 1937**

19 **SEC. 228.** (a) Section 6(c)(4)(A) of the United States
20 Housing Act of 1937 is amended by striking out “or are
21 paying more than 50 per centum of family income for rent”
22 and inserting “, are paying more than 50 percent of family
23 income for rent,” after “substandard housing”.

24 (b) Sections 6(k) (4) and (5) of such Act are each amend-
25 ed by striking out “his” and inserting in lieu thereof “their”.

1 **TITLE III—PROGRAM AMENDMENTS AND**
2 **EXTENSIONS**

3 **PART A—FEDERAL HOUSING ADMINISTRATION**

4 **EXTENSION OF FEDERAL HOUSING ADMINISTRATION**

5 **MORTGAGE INSURANCE PROGRAMS**

6 **SEC. 301. (a)** The first sentence of section 2(a) of the
7 National Housing Act is amended by striking out “1985”
8 and inserting in lieu thereof “1987”.

9 **(b)** Section 217 of such Act is amended by—

10 (1) inserting “section 222, section 232,” after
11 “section 221,”;

12 (2) inserting “section 242,” after “section 236,”;

13 (3) striking out “1985” and inserting in lieu
14 thereof “1987”; and

15 (4) inserting “made on or” before “before that
16 date”.

17 **(c)** The fifth sentence of section 221(f) of such Act is
18 amended by—

19 (1) striking out “1985” and inserting in lieu
20 thereof “1987”; and

21 (2) inserting “made on or” before “before that
22 date”.

23 **(d)** Section 222 of such Act is amended by adding at the
24 end thereof the following new subsection:

1 “(h) No mortgage may be insured under this section
2 after September 30, 1985, except pursuant to a commitment
3 to insure made on or before that date.”.

4 (e) Section 232 of such Act is amended by adding at the
5 end thereof the following new subsection:

6 “(j) No mortgage may be insured under this section after
7 September 30, 1985, except pursuant to a commitment to
8 insure made on or before that date.”.

9 (f) Section 242 of such Act is amended by adding at the
10 end thereof the following new subsection:

11 “(i) No mortgage may be insured under this section after
12 September 30, 1985, except pursuant to a commitment to
13 insure made on or before that date.”.

14 (g) Section 244(d) of such Act is amended by—

15 (1) striking out “1985” and inserting in lieu
16 thereof “1987”; and

17 (2) inserting “on or” before “before that date.”.

18 (h) Section 244(h) of such Act is amended by striking
19 out “1985” and inserting in lieu thereof “1987”.

20 (i) The last sentence of section 245(a) of such Act is
21 amended by—

22 (1) striking out “1985” and inserting in lieu
23 thereof “1987”; and

24 (2) striking out “entered into prior to” and insert-
25 ing in lieu thereof “made on or before”.

1 (j) The last sentence of section 1002(a) is amended by—

2 (1) striking out “1985” and inserting in lieu
3 thereof “1987”; and

4 (2) striking out “issued” and inserting in lieu
5 thereof “made on or”.

6 MISCELLANEOUS AMENDMENTS

7 SEC. 302. (a) Section 232(i)(2)(B) of the National Hous-
8 ing Act is amended to read as follows:

9 “(B) bear interest at such rate as may be agreed
10 upon by the mortgagor and the mortgagee;”.

11 (b) Section 235 of such Act is amended by—

12 (1) inserting in subsection (m) “made on or”
13 before “before that date”; and

14 (2) striking out in the last sentence of subsection
15 (q)(1) “entered into prior to” and inserting in lieu
16 thereof “made on or before”.

17 (c) The last sentence of section 236(i)(1) of such Act is
18 amended by striking out “(h)” and inserting in lieu thereof
19 “(f)(4)”.

20 (d) Section 247(a)(2) of such Act is amended by striking
21 out “Mortgagor” and inserting in lieu thereof “mortgagor”.

22 (e) Section 248 of such Act is amended by—

23 (1) striking out in subsection (a)(1) “lands” and
24 inserting in lieu thereof “land”;

25 (2) striking out in subsection (a)(2) “lands”; and

1 (3) striking out "tribal or trust land" in subsection
2 (d) and inserting in lieu thereof "trust or otherwise re-
3 stricted land".

4 (f) Section 253 of such Act is amended by—

5 (1) striking out the fourth sentence of subsection
6 (b) and inserting in lieu thereof the following: "For
7 purposes of this section, the term 'net appreciated
8 value' means the amount by which the sales price of
9 the property (less the mortgagor's selling costs) ex-
10 ceeds the actual project cost after completion, as ap-
11 proved by the Secretary.";

12 (2) striking out in the first sentence of subsection
13 (c) "204" and inserting in lieu thereof "207"; and

14 (3) striking out the last sentence of subsection (c)
15 and inserting in lieu thereof the following: "The term
16 'original principal face amount of the mortgage' as
17 used in section 207 shall not include the mortgagee's
18 share of net appreciated value.".

19 (g) The last sentence of section 809(f) of such Act is
20 amended by inserting "made on or" before "before such
21 date".

22 (h) The first sentence of section 810(h) of such Act is
23 amended by—

24 (1) striking out "(exclusive of" and all that fol-
25 lows through "207" and inserting in lieu thereof "at

1 such rate as may be agreed upon by the mortgagor and
2 the mortgagee"; and

3 (2) striking out before the period at the end there-
4 of " , and shall bear interest at not to exceed the rate
5 applicable to mortgages insured under section 203".

6 (i) The last sentence of section 810(k) of such Act is
7 amended by inserting "made on or" before "before such
8 date".

9 (j) The last sentence of section 1101(a) of such Act is
10 amended by striking out "issued" and inserting in lieu thereof
11 "made on or".

12 (k) Section 482 of the Housing and Urban-Rural Recov-
13 ery Act of 1983 is amended by striking out "such Act" and
14 inserting in lieu thereof "the National Housing Act".

15 EXPANDED AUTHORITY FOR SETTING INSURANCE

16 PREMIUM CHARGES ON TITLE I LOANS

17 SEC. 303. Section 2(f) of the National Housing Act is
18 amended by striking out "The Secretary" and all that follows
19 through "such premium charge" the second place it appears
20 and inserting in lieu thereof the following: "The Secretary
21 shall fix one or more premium charges for the insurance
22 granted under this section, but such charge or charges for
23 any loan, advance of credit, or purchase shall not exceed an
24 aggregate amount equivalent to 1 percent per annum of the
25 net proceeds of such loan, advance of credit, or purchase for
26 the term of the obligation. Such premium charge or charges".

1 MORTGAGES ON HAWAIIAN HOMELANDS AND INDIAN
2 LANDS TO BE OBLIGATIONS OF THE GENERAL INSUR-
3 ANCE FUND

4 SEC. 304. (a) Section 247 of the National Housing Act
5 is amended by adding the following new subsection at the end
6 thereof:

7 “(d) Notwithstanding any other provision of this Act,
8 the insurance of a mortgage using the authority contained in
9 this section shall be the obligation of the General Insurance
10 Fund created pursuant to section 519 of this Act. The mort-
11 gagee shall be eligible to receive the benefits of insurance as
12 provided in section 204 of this Act with respect to mortgages
13 insured pursuant to this section, except that all references in
14 section 204 to the Mutual Mortgage Insurance Fund or the
15 Fund shall be construed to refer to the General Insurance
16 Fund, and all references in section 204 to section 203 shall
17 be construed to refer to the section under which the mort-
18 gage is insured.”.

19 (b) Section 248 of the National Housing Act is amended
20 by—

21 (1) redesignating subsections (f), (g), and (h) as
22 subsections (g), (h), and (i), respectively, and inserting
23 after subsection (e) the following new subsection:

24 “(f) Notwithstanding any other provision of this Act, the
25 insurance of a mortgage using the authority contained in this

1 section shall be the obligation of the General Insurance Fund
 2 created pursuant to section 519 of this Act. The mortgagee
 3 shall be eligible to receive the benefits of insurance as provid-
 4 ed in section 204 of this Act with respect to mortgages in-
 5 sured pursuant to this section, except that all references in
 6 section 204 to the Mutual Mortgage Insurance Fund or the
 7 Fund shall be construed to refer to the General Insurance
 8 Fund, and all references in section 204 to section 203 shall
 9 be construed to refer to the section under which the mort-
 10 gage is insured.”; and

11 (2) striking out in the last sentence of subsection
 12 (g)(3) and the first sentence of subsection (g)(5), as
 13 such subsections were redesignated by paragraph (1),
 14 “insurance fund” each place it appears and inserting in
 15 lieu thereof “General Insurance Fund”.

16 **REPEAL OF REQUIREMENT TO PUBLISH PROTOTYPE**
 17 **HOUSING COSTS FOR ONE- TO FOUR-FAMILY DWELL-**
 18 **ING UNITS**

19 **SEC. 305.** The Housing and Community Development
 20 Act of 1977 is amended by striking out section 904.

21 **AUTHORITY FOR INCREASED MORTGAGE LIMITS FOR**
 22 **MULTIFAMILY PROJECTS IN HIGH-COST AREAS**

23 **SEC. 306.** Section 207(c)(3), the second proviso of sec-
 24 tion 213(b)(2), the first proviso of section 220(d)(3)(B)(iii),
 25 section 221(d)(3)(ii), section 221(d)(4)(ii), section 231(c)(2)
 26 and section 234(e)(3) of the National Housing Act are each

1 amended by striking out "not to exceed 75 per centum" and
2 all that follows through "involved) in such an area" and in-
3 serting in lieu thereof the following: "not to exceed 110 per-
4 cent in any geographical area where the Secretary finds that
5 cost levels so require and by not to exceed 140 percent
6 where the Secretary determines it necessary on a project-by-
7 project basis, but in no case may any such increase exceed 90
8 percent where the Secretary determines that a mortgage pur-
9 chased or to be purchased by the Government National Mort-
10 gage Association in implementing its special assistance func-
11 tions under section 305 of this Act (as such section existed
12 immediately before November 30, 1983) is involved".

13 **DOUBLE DAMAGES REMEDY FOR UNAUTHORIZED USE OF**
14 **MULTIFAMILY HOUSING PROJECT ASSETS AND INCOME**

15 **SEC. 307. (a)** This section may be cited as the "Civil
16 Recovery Double Damages Act".

17 **(b)(1)** The Secretary of Housing and Urban Develop-
18 ment (hereafter referred to in this section as the "Secretary")
19 may request the Attorney General to bring an action in a
20 United States district court to recover any assets or income
21 used by any person in violation of (A) a regulatory agreement
22 that applies to a multifamily project whose mortgage is in-
23 sured or held by the Secretary under title II of the National
24 Housing Act, or (B) any applicable regulation. For purposes
25 of this section, a use of assets or income in violation of the
26 regulatory agreement or any applicable regulation shall in-

1 clude any use for which the documentation in the books and
2 accounts does not establish that the use was made for a rea-
3 sonable operating expense or necessary repair of the project
4 and has not been maintained in accordance with the require-
5 ments of the Secretary and in reasonable condition for proper
6 audit.

7 (2) For purposes of a mortgage insured or held by the
8 Secretary under title II of the National Housing Act, "any
9 person" shall mean any person or entity which owns a
10 project, as identified in the regulatory agreement, including
11 but not limited to any stockholder holding 25 percent or more
12 interest of a corporation that owns the project; and beneficial
13 owner under any business or trust; any officer, director, or
14 partner of an entity owning the project; and any heir, assign-
15 ee, successor in interest, or agent of any owner.

16 (c) The Attorney General, upon request of the Secre-
17 tary, shall have the exclusive authority to authorize the initi-
18 ation of proceedings under this section. Pending final resolu-
19 tion of any action under this section, the court may grant
20 appropriate temporary or preliminary relief, including re-
21 straining orders, injunctions, and acceptance of satisfactory
22 performance bonds, to protect the interests of the Secretary
23 and to prevent use of assets or income in violation of the
24 regulatory agreement and any, applicable regulation and loss
25 of value of the realty and personality involved.

1 (d) In any judgment favorable to the United States en-
2 tered under this section, the Attorney General may recover
3 double the value of the project's assets and income that the
4 court determines to have been used in violation of the regula-
5 tory agreement or any applicable regulation, plus all costs
6 relating to the action, including but not limited to reasonable
7 attorney and auditing fees. Notwithstanding any other provi-
8 sion of law, the Secretary may apply the recovery, or any
9 portion of the recovery, to the project or to the applicable
10 insurance fund under the National Housing Act, or deposit it
11 in miscellaneous receipts of the Treasury of the United
12 States, as the Secretary determines is appropriate.

13 (e) Notwithstanding any other statute of limitations, the
14 Secretary may request the Attorney General to bring an
15 action under this section at any time up to and including 6
16 years after the latest date that the Secretary discovers any
17 use of project assets and income in violation of the regulatory
18 agreement or any applicable regulation.

19 (f) The remedy provided by this section is in addition to
20 any other remedies available to the Secretary or the United
21 States.

22 PART B—OTHER PROGRAMS

23 RESEARCH AUTHORIZATION

24 SEC. 311. The second sentence of section 501 of the
25 Housing and Urban Development Act of 1970 is amended by

1 striking out "and such sums as may be necessary for fiscal
2 year 1985" and inserting in lieu thereof the following: "not
3 to exceed \$16,900,000 for fiscal year 1985, not to exceed
4 \$18,900,000 for fiscal year 1986, and such sums as may be
5 necessary for fiscal year 1987".

6 FAIR HOUSING INITIATIVES PROGRAM

7 SEC. 312. (a) The Secretary of Housing and Urban De-
8 velopment (hereafter referred to in this section as the "Secre-
9 tary") is authorized to make grants to, or to enter into con-
10 tracts or cooperative agreements with, State or local govern-
11 ments or their agencies, public or private nonprofit organiza-
12 tions or institutions, or other public or private entities that
13 are formulating or carrying out programs to prevent or elimi-
14 nate discriminatory housing practices, to develop, implement,
15 carry out, or coordinate—

16 (1) programs or activities designed to obtain en-
17 forcement of the rights granted by Title VIII of Public
18 Law 90-284, as amended (hereafter referred to in this
19 section as "Title VIII"), or by State or local laws that
20 provide rights and remedies for alleged discriminatory
21 housing practices that are substantially equivalent to
22 the rights and remedies provided in Title VIII,
23 through such appropriate judicial or administrative pro-
24 ceedings (including informal methods of conference,
25 conciliation, and persuasion) as are available therefor;
26 and

1 (2) education and outreach programs designed to
2 inform the public concerning rights and obligations
3 under the laws referred to in paragraph (1).

4 (b) There are authorized to be appropriated for the pur-
5 poses of this section and for necessary expenses of the Secre-
6 tary in carrying out such purposes, including program evalua-
7 tions, an amount not to exceed \$10,000,000 for each of the
8 fiscal years 1986 and 1987. Any amounts appropriated under
9 this section shall remain available through the end of the
10 fiscal year after the fiscal year for which they were originally
11 made available.

12 **REPEAL OF LEGISLATIVE REVIEW REQUIREMENTS APPLI-**
13 **CABLE TO THE DEPARTMENT OF HOUSING AND**
14 **URBAN DEVELOPMENT REGULATIONS**

15 **SEC. 313. (a)** Section 7(o) of the Department of Housing
16 and Urban Development Act is hereby repealed.

17 (b) Section 506(e) of the Solar Energy and Energy Con-
18 servation Bank Act is amended by striking out “, subject to
19 the provisions of section 7(o) of the Department of Housing
20 and Urban Development Act (42 U.S.C. 3535(o)),”.

21 **MANUFACTURED HOMES FEES**

22 **SEC. 314.** Section 620 of the National Manufactured
23 Housing Construction and Safety Standards Act of 1974 is
24 amended by striking out the heading and all that follows and
25 inserting in lieu thereof the following:

1 **"FEES**

2 **"SEC. 620. The Secretary may establish and impose on**
3 **manufactured home manufacturers, distributors, and dealers**
4 **such reasonable fees as may be necessary to offset the costs**
5 **(including the costs of contractors and State agencies) of car-**
6 **rying out the Secretary's responsibilities under this title."**

7 **DELETION OF MAXIMUM FEE FOR INTERSTATE LAND**8 **SALES REGISTRATION**

9 **SEC. 315. Section 1405(b) of the Interstate Land Sales**
10 **Full Disclosure Act is amended by striking out "a fee, not in**
11 **excess of \$1,000," and inserting in lieu thereof "a reasonable**
12 **fee,".**

13 **TECHNICAL AMENDMENTS TO THE SOLAR ENERGY AND**14 **ENERGY CONSERVATION BANK ACT**

15 **SEC. 316. (a) Section 520(b)(4)(A) of the Solar Energy**
16 **and Energy Conservation Bank Act is amended by striking**
17 **out "12" and inserting in lieu thereof "10".**

18 **(b) Sections 506(f)(1), 509(b)(2)(E), 515(b)(1)(A)(iii),**
19 **515(b)(1)(B), 515(b)(1)(C)(ii), 515(b)(1)(D), and 515(b)(2) of**
20 **such Act are amended by striking out "38" and "44C"**
21 **wherever they appear and inserting in lieu thereof "23" and**
22 **"38", respectively.**

**TITLE IV—RENTAL REHABILITATION AND
DEVELOPMENT GRANTS**

**RENTAL REHABILITATION AND HOUSING DEVELOPMENT
GRANT PROGRAMS**

SEC. 401. (a) The section heading of section 17 of the United States Housing Act of 1937 is amended to read as follows: **“RENTAL REHABILITATION GRANTS”**.

(b) Section 17(a) of such Act is amended by—

(1) striking out paragraph (1) and inserting in lieu thereof the following:

“(1) REHABILITATION GRANTS.—The Secretary is authorized to make rental rehabilitation grants to help support the rehabilitation of privately owned real property to be used for primarily residential rental purposes in accordance with the provisions of this section.”; and

(2) striking out paragraph (3).

(c) Section 17(b)(1) of such Act is amended to read as follows:

“(1) FORMULA ALLOCATION.—Of the amount available in any fiscal year for rehabilitation grants under this section, the Secretary shall allocate amounts to cities having populations of 50,000 or more, urban counties, and States for use as provided in subsection (d), on the basis of a formula which shall be contained in a regulation. This formula shall take into account objectively measurable conditions in such juris-

1 factors, including such factors as low-income rental popula-
2 tion, overcrowding of rental housing, the extent of physically
3 inadequate housing stock, and such other objectively measur-
4 able conditions as the Secretary deems appropriate to reflect
5 the need for assistance under this section.”.

6 (d) Section 17(b)(2) (A) and (B) and (c)(1)(A) of such Act
7 are amended by striking out “subsection (c)” each place it
8 appears and inserting in lieu thereof “subsection (d)”.

9 (e) The subsection caption of section 17(c) of such Act is
10 amended to read as follows: “RENTAL REHABILITATION
11 GRANTS”.

12 (f) Section 17(c)(2) (C), (E), (F), and (G) of such Act and
13 section 17(e) of such Act, as redesignated by subsection (g) of
14 this section, are amended by striking out “structure” and
15 “structures” each place they appear and inserting in lieu
16 thereof “project” and “projects”, respectively.

17 (g) Section 17 of such Act is amended by striking out
18 subsections (d) and (j) and redesignating the remaining sub-
19 sections accordingly.

20 (h) Section 17(d) of such Act, as redesignated by subsec-
21 tion (g) of this section, is amended by—

22 (1) striking out in the second sentence “, but
23 may” and all that follows through the end of that sen-
24 tence and inserting in lieu thereof a period; and

1 (2) striking out paragraph (3) and redesignating
2 paragraph (4) as paragraph (3).

3 (i) Section 17(h)(1) of such Act, as redesignated by sub-
4 section (g) of this section, is amended by striking out "or
5 development" each place it appears.

6 (j) Section 17(i) of such Act, as redesignated by subsec-
7 tion (g) of this section, is amended by—

8 (1) striking out paragraphs (1) and (2) and redes-
9 ignating the remaining paragraphs accordingly;

10 (2) striking out paragraph (3), as redesignated by
11 paragraph (1) of this subsection, and inserting in lieu
12 thereof the following:

13 “(3) The term ‘grantee’ means—

14 “(A) any city or urban county receiving re-
15 sources under subsection (b);

16 “(B) any State administering a rental reha-
17 bilitation program, as provided in subsection
18 (d)(1); and

19 “(C) any unit of general local government
20 that receives assistance from the Secretary, as
21 provided in subsection (d)(2);”;

22 (3) striking out paragraph (5), as redesignated by
23 paragraph (1) of this subsection, and inserting in lieu
24 thereof the following:

1 “(5) the term ‘unit of general local government’
2 means any city, county, town, township, parish, vil-
3 lage, or other general purpose political subdivision of a
4 State.”.

5 (k) Section 17(j) (1) and (2) of such Act, as redesignated
6 by subsection (g) of this section, is amended by striking out
7 “subsection (e)(1)” each place it appears and inserting in lieu
8 thereof “subsection (d)(1)”.

9 (l)(1) On or after the effective date of this section, no
10 housing development grant may be made under section 17 of
11 such Act, except pursuant to a reservation of funds made by
12 the Secretary of Housing and Urban Development before
13 that date.

14 (2) Any housing development grant made under section
15 17, as it existed immediately before the effective date of this
16 section, shall continue to be governed by the provisions of
17 such section 17.

18 (3) Any amounts that, in the absence of this section,
19 would have been available for reservation for housing devel-
20 opment grants under section 17 of such Act on or after the
21 effective date of this section shall be rescinded.

22 (m) This section shall become effective on the later of
23 October 1, 1985 or the date of enactment of this Act.

1 **AMENDMENTS TO THE HOUSING AND COMMUNITY**
2 **DEVELOPMENT ACT OF 1974**

3 **SEC. 402. (a) Section 104(f)(4) of the Housing and Com-**
4 **munity Development Act of 1974 is amended by inserting**
5 **after "106(d)" the following: "or States distributing rental**
6 **rehabilitation resources to units of general local government**
7 **as provided in section 17(d)(1)(B) of the United States Hous-**
8 **ing Act of 1937".**

9 **(b) Section 106(d)(3)(A) of such Act is amended by strik-**
10 **ing out "section 17(e)(1)" and inserting in lieu thereof "sec-**
11 **tion 17(d)(1)".**

12 **(c) Section 107(d) of such Act is amended by—**

13 **(1) striking out in paragraph (1) "and no assist-**
14 **ance may be made available under section 17 of the**
15 **United States Housing Act of 1937 unless the grant-**
16 **ee" and inserting in lieu thereof "unless the appli-**
17 **cant"; and**

18 **(2) striking out "grantee or" before "applicant" in**
19 **paragraph (3).**

20 **(d) Section 817 of such Act is amended by—**

21 **(1) inserting "and" after "1966,"; and**

22 **(2) striking out ", and section 17 of the United**
23 **States Housing Act of 1937".**

1 CONFORMING AMENDMENTS TO THE NATIONAL HOUSING

2 **ACT**

3 SEC. 403. (a) Sections 223(f)(5) and 244(h) of the Na-
4 tional Housing Act are amended by striking out "or devel-
5 oped" each place it appears.

6 (b) Section 223(f)(5)(A) of such Act is amended by strik-
7 ing out "or development".

SECTION-BY-SECTION EXPLANATION AND JUSTIFICATION

TITLE I--COMMUNITY AND NEIGHBORHOOD DEVELOPMENT

AUTHORIZATIONS--TITLE I OF THE
HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974

Section 101 of the bill would provide funding authorizations for fiscal years 1986 and 1987 for the Community Development Block Grant (CDBG) Program and the Secretary's Discretionary Fund (SDF).

Subsection (a) would amend section 103 of the 1974 Act to provide an overall title I authorization of \$3.1248 billion for fiscal year 1986 and such sums as may be necessary for fiscal year 1987. The fiscal year 1986 amount is a 10 percent reduction from the amount appropriated for fiscal year 1985, in furtherance of the Administration's objective of reducing the Budget deficit by reducing Federal outlays. The amount authorized for fiscal year 1985 would be increased by \$4 million to reflect the amount actually appropriated for that fiscal year.

Subsection (b) would amend section 107 of the 1974 Act to make up to \$60.5 million available for the Secretary's Discretionary Fund from amounts authorized under section 103 for fiscal year 1986 and such sums as may be necessary for fiscal year 1987. The amount authorized for fiscal year 1984 would be changed to \$66.2 million, which was the amount set aside for use in that year, and fiscal year 1985 would be changed to \$60.5 million reflecting the amount actually set aside for that year.

DEFINITIONS**Revised Definition of
Indian Tribe Eligibility**

Section 102(a) would amend section 102(a)(13) of the Housing and Community Development Act of 1974, as redesignated by section 107(d)(1)(D) of the bill, to revise the definition of Indian tribe for purposes of the Community Development Block Grant (CDBG) Indian program.

The proposal is needed to clarify that the Department will only make block grant funds available to Indian tribes, bands, nations or Alaskan Native Villages recognized by the Secretary of the Interior as eligible for services because of their status as Indian tribes or Alaskan Native Villages, provided that all or part of the land of such tribe or village is held in restricted or trust status by the United States.

At present, section 102(a)(17) defines "Indian tribe" in part as any "Indian tribe . . . which is considered an eligible recipient under the Indian Self-Determination and Education Assistance Act" Under this definition, tribal organizations as well as tribes are eligible. The amendment will assure that all eligible recipients will have the full governmental powers necessary to carry out a CDBG program.

The proposed definition of Indian tribes reflects the Administration's efforts to establish a more uniform and equitable policy for Indians. It emphasizes the historical government-to-government relationship between the Federal government and Federally-recognized Indian tribes and limits CDBG

assistance to such tribes. For those not meeting the definition, State and local programs, including those funded by CDBG, are the appropriate sources of assistance. Use of the Federal recognition criteria also assures that the process and standards established under laws passed by Congress are applied in a consistent manner to determine eligibility.

**Modify the Definition of Low- and
Moderate-Income Persons--State's Program**

Subsection (b) would modify section 102(a)(16)(A) of the 1974 Act, as redesignated by section 107(d)(1)(D) of the bill, to provide that in the State's program, low- and moderate-income persons in nonmetropolitan areas be based on the median for the entire nonmetropolitan area of the State, instead of the area used for Section 8. The section 8 definition is based on the higher of 80 percent of the median income on a county-by-county basis for nonmetropolitan areas or 80 percent of the nationwide median income of renters, currently \$12,950, with adjustments for family size and unusually high or low family incomes. For metropolitan areas, the section 8 definition based on the median income for the metropolitan area would continue to be used.

Under the CDBG program, grantees (entitlement localities and States) must use at least 51 percent of their funds to principally benefit low- and moderate-income persons over a period of up to three years. Grantees may only use funds to benefit persons of low and moderate income, to eliminate or prevent slums or blight or to meet urgent community development

needs. The definition proposed to be changed is used in part to determine compliance with these requirements.

The county-by-county basis for nonmetropolitan areas makes it more difficult to concentrate funding within relatively poor counties, since only about 40 percent of those within a county are at or below 80 percent of the county median income, and thus would be low- and moderate-income persons. Activities to aid in the elimination of slums and blight or to meet urgent needs would also qualify, but do not count towards the 51 percent low- and moderate-income benefit statement requirement. By using the statewide median, more residents in a relatively poorer, nonmetropolitan county would be considered to be of low- and moderate-income for purposes of meeting the 51 percent requirement. In contrast, defining low- and moderate-income on a county-by-county basis results in benefiting relatively affluent individuals, since funds may be counted towards meeting the low- and moderate-income benefit test for about 40 percent of each county's population, regardless of the respective wealth or poverty in the county vis-a-vis other counties.

Using 80 percent of median for the entire nonmetropolitan area of the State as the cut-off for defining low- and moderate-income persons for the nonmetropolitan area would permit funding to be more easily concentrated in counties with about 40 percent of the State's neediest persons living in nonmetropolitan areas. Using a statewide median would also make it easier for the poorer counties receiving funds from a State to fund activities designed to serve an area generally.

STATEMENT OF ACTIVITIES AND REVIEW

Modify Information Required in
Statement of Activities

Section 103(a) would amend section 104(a)(1) of the Housing and Community Development Act of 1974 by deleting the last sentence which requires that the grantee's statement of activities contain a description of the grantee's past use of funds and an assessment of the relationship of such use to (1) community development objectives identified by the grantee in the previous year's statement of activities, and (2) the provisions of section 104(b)(3) relating to the grantee's certification relating to projected use of funds.

As currently in effect, the provisions of section 104(a)(1) that would be deleted duplicate requirements imposed upon grantees by section 104(d) of the Act. Section 104(d) requires a grantee to submit to the Secretary an annual performance and evaluation report concerning activities carried out by the grantee pursuant to Title I of the 1974 Act, and an assessment of the relationship of those activities to the objectives of Title I and the needs and objectives identified by the grantee in the statement it submitted under section 104(a) and to the requirements of section 104(b)(3). The annual performance and evaluation report under section 104(d) must be made available to citizens in their jurisdictions for review and comment before the grantee submits the report to HUD. The report must contain the information called for in the statement of activities under section 104(a)(1) and, also, more specific and detailed

information dealing with such matters as programmatic accomplishments and the extent to which funds were used to benefit low- and moderate-income persons. The amendment would, therefore, reduce unnecessary costs and paperwork burdens for the grantee.

**Simplifying Planning
Requirements--State's Program**

Subsection (b) would amend the planning requirements under section 104(b)(4) of the 1974 Act by exempting States from the requirement that a grantee certify that it has developed a community development plan, covering a period up to three years, that identifies community development and housing needs and specifies short- and long-term community development objectives developed in accordance with the primary objective and requirements of Title I.

States, unlike metropolitan cities and urban counties, undertake no community development activities; thus, a community development plan has little practical application. The distinction in functions between States and entitlement grantees is reflected in the section 104(a)(1) requirement relating to the statement of projected use of funds that each grantee must file. In the case of States, the statement consists of the method by which the State will distribute funds to units of general local government in nonentitlement areas. (The method of distribution must be developed by the State in consultation with the units of general local government, and the units of general local government, in turn, must identify their housing and community development needs--a process similar to that required

of States by section 104(b)(4). See sections 106(d)(2)(C) and (D)). In the case of metropolitan cities and urban counties, their statement of projected use of funds consists of proposed community development activities since they carry out the activities directly.

Moreover, it is logical to assume that States do, in fact, take into account their short- and long-term community development and housing needs when preparing the section 104(a)(1) final statement. The final statement is subject to more public scrutiny than any other phase of the Community Development Block Grant application processing, and must reflect public and local concerns. HUD experience indicates that the final statement ordinarily describes the State's long-term objectives, and that short-term priorities are reflected in the method of distribution of funds developed by the State in consultation with local officials.

Accordingly, the State's final statement and its method of distribution of funds represent the State's strategy and provide sufficient basis for States to allocate resources.

The proposal would reduce unnecessary red tape and burdens on States, by simplifying the planning process.

**Repeal of Housing
Assistance Plan Requirement**

Subsection (c)(1) would amend the Housing and Community Development Act of 1974 by repealing section 104(c) which requires, as a condition for receiving a grant, that an entitlement grantee (metropolitan city or urban county) certify that it is following a current housing assistance plan (HAP) that has been approved by the Secretary. Subsection (c)(4) would amend section 104(b) of the 1974 Act to substitute for the HAP certification a certification by the entitlement grantee that it will cooperate in the provision of assisted housing opportunities suited to the needs of persons of low and moderate income who reside in the community or who are expected to reside in the community as a result of current or planned employment. The 1974 Act defines persons of low and moderate income as families and individuals whose incomes do not exceed 80 percent of the median income for the area involved, as determined by HUD. Subsections (c)(2), (3), (5) and (6) would make appropriate conforming changes elsewhere in Title I of the 1974 Act.

Currently, section 104(c) requires that entitlement grantees develop a detailed and comprehensive HAP which (1) surveys the condition of existing housing stock and assesses the housing assistance needs of lower income persons; (2) specifies a realistic annual goal for the number of dwelling units or lower income persons to be assisted; and (3) indicates the general locations of proposed housing for lower income persons in order to further revitalization of the community, promote greater choice of housing opportunities and avoid undue concentrations of

assisted persons in areas with a high proportion of low-income persons, and assure the availability of public facilities and services adequate to serve the proposed housing projects.

In earlier years, the cost in dollars and time of developing a HAP could be justified, since it permitted grantees to influence the type and location of federally assisted housing within the community. The HAP also enabled HUD to coordinate the assistance it provided under the CDBG and housing programs. The realignment of Federal housing assistance, away from expensive new construction and substantial rehabilitation to the use of existing housing through the Housing Voucher program, has greatly reduced the need for the HAP process.

While the HAP requirement would be repealed, the Department believes that entitlement grantees should be required to certify that they will cooperate in providing housing opportunities suited to the needs of their low- and moderate-income residents and those expected to reside in the community due to current or planned employment. This new certification would be consistent with the CDBG program's historical emphasis on principally benefitting low- and moderate-income persons. It is appropriate that where entitlement cities and counties oppose efforts to provide housing for low- and moderate-income persons, the Department have the authority to condition their CDBG grants. The new certification would be the basis for the Department to sanction an entitlement grantee where it engages in systematic or

otherwise apparent actions to discourage, preclude, or subvert efforts to provide housing opportunities suited to the needs of low- and moderate-income persons.

Subsection (c)(7) would amend section 8(c)(1) of the United States Housing Act of 1937 to delete the provision that the maximum monthly rent may exceed the fair market rent by more than 10 percent but not more than 20 percent where the Secretary determines that such higher rent is necessary to implementation of a local HAP. The Secretary could continue to permit such higher rent where the Secretary determines that special circumstances warrant a higher maximum rent.

Subsection (c)(8) would amend section 18(b)(1) of the 1937 Act to modify the provision for local government review of certain applications involving the demolition or disposition of public housing. Current law requires the applications to contain a certification by appropriate local government officials that the proposed activity is consistent with any applicable HAP. Since HAPs would no longer be required, the proposal would require the application to contain evidence that the chief executive officer of the unit of general local government had the opportunity to review and comment on the application. This would assure local government participation in plans to demolish or dispose of public housing units, and is consistent with the approach proposed in section 225 of this bill for local government participation in the Secretary's decision to approve housing assistance applications under section 213 of the 1974 Act. Subsection (c)(8) would also limit the local government

review and comment requirement to applications involving at least 20 units or 10 percent of the PHA's total number of public housing units, whichever is less. This threshold is intended to relieve PHAs of the burden of complying with the public participation requirement for applications involving a relatively small number of units. The requirement in current law for the PHA to consult with tenants and tenant councils in developing the application would not change.

**Delete the Limitation Against Imposing Assessments to Recover
the Cost of CDBG-Assisted Public Improvements**

Subsection (c)(4) would also delete the requirement in section 104(b)(5) of the 1974 Act that entitlement grantees certify that they will not attempt to recover the capital costs of CDBG-assisted public improvements by assessing amounts against properties owned by low- and moderate-income persons, unless (1) CDBG funds are used to pay the proportion of the assessment that relates to the improvements' costs that are financed from other sources or (2) for purposes of making assessments against low- and moderate-income properties, the grantee certifies that it lacks sufficient CDBG funds to meet the requirements of (1), above. Subsection (d) would delete section 106(d)(5)(D) of the 1974 Act, which imposes a similar requirement on State program recipients.

The Administration has found that implementation and enforcement of these provisions is overly cumbersome and limits the flexibility of CDBG grantees. Further, the Administration believes that the provision may provide a disincentive for CDBG grantees to make public improvements in those neighborhoods that most need the improvements.

ALLOCATION AND DISTRIBUTION OF FUNDS

Altering the CDBG Distribution Between Entitlement and Nonentitlement Areas

Section 104(a) would amend sections 106(a) and (d) of the Housing and Community Development Act of 1974 to provide that of the amounts appropriated for Community Development Block Grants, 60 percent shall be allocated to metropolitan cities and urban counties under the entitlement program and 40 percent of the States under the State's program. The current statute provides for a 70/30 distribution. The allocation adjustment reflects termination of funding for certain Department of Agriculture community development programs. The proposed termination of these programs would otherwise result in nonrural areas receiving a disproportionate share of Federal funding for community development activities. This amendment, by providing for a 60/40 split between entitlement and nonentitlement recipients, respectively, approximates and continues the current distribution of Federal community development funds.

Use of Reallocated Entitlement Funds

Subsection (b) would amend section 106(c)(1) of the 1974 Act to prevent an entitlement grantee whose grant is reduced under section 104(d) or 111 from receiving not only a share of the amount available for reallocation because of actions against it, as provided under current law, but also from receiving any allocation of amounts available because of sanctions in the same

fiscal year taken against any other entitlement grantee in the same metropolitan statistical area (MSA).

Current law requires block grant entitlement funds which become available for reallocation to be reallocated in the next year to other metropolitan cities and urban counties in the same MSA. To receive amounts, grantees have to certify that they would be adversely affected by the loss of the funds from the MSA. No grantee may receive more than 25 percent of its regular formula grant. Funds for which no grantee in the MSA qualifies are added to the funds available for distribution to entitlement grantees for the next year, and distributed in accordance with the national formula. No change to these aspects of current law are proposed.

This amendment would strengthen the current incentive in the statute for grantees to avoid sanctions under section 104(d) and 111 by providing that the reduction in the amount of their grant due to these sanctions will not be made up, in whole or in part, because of a reallocation of amounts available due to sanctions against other grantees in the same MSA.

Mandate State Administration

Subsection (c) would amend section 106(d) of the 1974 Act to mandate State administration of the CDBG State program beginning in fiscal year 1986. Present law allows States to assume administration of the program. Any decision to administer the program for fiscal year 1985 or later years is irreversible. If the State later changes its mind and chooses not to administer the program, HUD may not do so for it. HUD is required to

continue operating the program for a State until it opts to take over administration.

In fiscal year 1983, only four States elected not to administer the program. For fiscal years 1984 and 1985, only three States elected not to administer the program. The small number of States electing not to administer the program does not justify the expense of maintaining a separate Federal structure of rules, requirements, and oversight. If a State does not assume responsibility for the program, those funds should be reallocated to States that are willing to do so. Since the vast majority of States have elected to administer the program themselves and since States have been given adequate administrative funds to administer the program under the formula in section 106(d)(3)(A), there is no reason all States should not be required to administer the program.

In any State where the Secretary is administering the program for fiscal year 1985, any amounts not obligated by January 1, 1986 would be turned over to the State if it were participating or returned to the United States Treasury if it were not.

Paragraph (2) would delete the requirement that the Secretary encourage and assist national associations of grantees and national associations of recipients to develop and recommend by November 30, 1984 uniform administrative procedures for such entities. Upon receipt and approval of these recommendations, the Secretary is required to change procedural requirements accordingly. The deletion is intended as a purely technical change. The

Secretary has received recommendations and plans to implement the necessary changes by September 30, 1985.

Paragraph (3) would clarify, among other technical corrections, that distributions by States cannot be made in the form of loans to units of general local government.

The remaining provisions of subsection (c) would make technical, conforming changes to a number of 1974 Act provisions, including a change in subsection (c)(5) to the reallocation rule that applies where amounts become available due to administrative actions against units of general local government or closeouts, to provide for such funds to be returned to Treasury if the State in which the unit of general local government is located does not receive a grant for that year. Having reallocated funds returned to the United States Treasury avoids the administrative burden of reallocating and tracking by source year the small amount of funds that the Department anticipates will become available through administrative sanctions or grant closeouts. Tracking by source year is required to comply with fund lapse provisions in our appropriations Acts.

**Delete the Requirement to
Have the Governor Certify**

Subsection (d) would amend sections 106(d)(2)(C) and (D) of the 1974 Act to eliminate the requirement that the Governor sign the certifications for States running the State's program. Under the proposal, the Governor, or anyone authorized by the Governor, could sign the necessary documents.

Other Title 1 certification requirements provide simply that the grantee execute the certification. (See, for example, section 104(b).) Since section 106 specifically mentions the Governor, the provision has been interpreted as requiring the Governor to sign, not a designee. Requiring the Governor to sign is administratively cumbersome and unnecessary.

ENTITLEMENT TRANSITION**Introduction**

Section 105 would amend the CDBG program under the Housing and Community Development Act of 1974 to provide that communities which lose their classification as either a metropolitan city or urban county for fiscal year 1986 or thereafter would be eligible to receive transition funding equal to full entitlement funding for the first year following loss of designation and one-half of full funding for the second year. This provision would apply instead of any other grandfathering mechanism. Metropolitan cities that received funding for fiscal year 1985 as a result of a grandfathering provision would be eligible to receive transition funding equal to one-half of full entitlement funding for one year--fiscal year 1986. There are no urban counties receiving funding under grandfathering provisions for fiscal year 1985.

During the second year of transition funding, cities, counties, and the units of general local government included in the county would also be eligible to apply for funds under the State's program as nonentitled units of general local government. Cities losing their classification as metropolitan cities for fiscal year 1986, which were grandfathered for fiscal year 1985, would only be eligible to apply for funds under the State's program for fiscal year 1986.

For urban counties losing designation, the proposal would limit transition funding to those whose potential maximum combined population drops below 200,000 (a condition in the

current grandfathering provision) and which can secure participation in both years by all of their included units of general local government that are not eligible to receive entitlement grants. Counties whose potential combined population drops below 200,000 because a previously included area attains metropolitan city classification would also qualify under this provision.

History

In each year since 1976, the CDBG program has had one or more statutory provisions in effect which served to continue entitlement status for various communities which would otherwise have lost this status. For fiscal year 1984, approximately \$18 million was allocated to grantees that, in the absence of grandfathering, would have lost eligibility for entitlement funding because of the 1980 census or changes in the designation of metropolitan statistical areas or of central cities. The primary justification for these provisions has been that communities are unprepared to deal with the loss of funding upon which they had come to rely as entitlement communities. However, the continued grandfathering of disqualified communities has served to reduce funding to both existing and newly qualifying communities, since the amount of CDBG funds available for the entitlement program does not expand with the number of communities participating. The proposal would establish a permanent transition funding mechanism that would provide a time-specific, but reasonable, period for communities to adjust from

entitlement status to competing for funds as nonentitled entities.

Major Provisions

Subsection (e)(10) would add two new paragraphs in section 106(b) of the 1974 Act. Proposed paragraph (7)(B) would make any city (not including a city grandfathered for fiscal year 1985) losing its classification as a metropolitan city for fiscal year 1986 or thereafter eligible to receive full entitlement funding for the first year of its loss of classification and one-half funding for the subsequent year. (Funding levels in the second year would be computed based on only one-half of the city's values in the formulas factors.) In the city's second year of eligibility for transition funding, it would also be eligible to participate in the State's program. If a city chose to participate as part of an urban county in the first year of its eligibility, it would not receive transition funding. No city receiving transition funding in the first year could join with an urban county in its second year of eligibility.

Currently the last sentence of section 102(d) of the 1974 Act permits a unit of general local government to join with an urban county for the first year of its loss of designation regardless of where the urban county is in its three year qualifying period. Should the city not elect to take advantage of this provision for the first year of its loss of designation, the Department believes it would be inappropriate to permit the city, where the urban county is requalifying for the second year,

to join with the urban country given the provision's purpose of assisting the unit of general local government to adjust to competing for funds under the State's program. Of course, if a city requalified as a metropolitan city, it would receive funding as an entitlement entity for as long as it met the requirements for designation as a metropolitan city.

Proposed paragraph (8) would apply equivalent rules to a county losing its classification as an urban county for fiscal year 1986 or thereafter. To qualify, the county must not only have legal authority to conduct funded activities within its unincorporated territory but also have all units of general local government (except metropolitan cities) participating in the county. While the agreement the county would sign with its participating units of general local government would be similar to the cooperation agreement required of an eligible urban county under section 102(a)(6)(B)(ii), it would cover at least a two-year period, instead of at least the three-year period required for urban counties. The county would be eligible to receive full funding the first year of its loss of classification and one-half funding in the second year. Any county receiving funding under this provision (and each of its participating units of general local government) could also participate in the State's program in its second year of transition eligibility funding. Of course, if a county requalified as an urban county, it would receive funding as an entitlement entity.

Proposed paragraph (7)(A) would make metropolitan cities, which currently receive funding for fiscal year 1985 under a

grandfathering provision, eligible for one-half funding for one more year (1986). These cities would also be eligible to participate in the State's program for fiscal year 1986. However, any city which decides to participate with an urban county for a period including fiscal year 1986 would be ineligible for transition funding under these new provisions.

The remaining provision of the proposal would amend the 1974 Act to make it possible to fund transition entities under section 106(b), as described above, even though they no longer qualify as metropolitan cities or urban counties. Specifically, subsections (e)(3) and (7) would amend the allocation formula variables in section 106(b) of the 1974 Act to permit counting the values for population, extent of poverty, extent of housing overcrowding, extent of growth lag, and age of housing at half the full value for transition cities which received funding under a grandfathering provision in fiscal year 1985 and all cities and counties eligible to receive funding in the second year as a transition city or county. This amendment to the allocation values results in funding at the 50 percent level in fiscal year 1986 for cities which received grandfathered funding in fiscal year 1985 and for newly disqualified cities and counties in the second year of such transition funding.

Subsection (f) would amend the entitlement reallocation provisions to require that any amounts allocated to a transition city or county under section 106(b) which are not received by the city or county for a fiscal year because of a failure to meet program requirements or as a result of sanctions be reallocated

to metropolitan cities and urban counties only. Due to the short funding cycle for transition entities, it is administratively simpler and cost-efficient to include only metropolitan cities and urban counties in the reallocation process.

Subsection (g) would amend the State's allocation variables to include, for cities or counties receiving transition funding, the values relating to population, extent of poverty, extent of housing overcrowding, and age of housing at half the full value in the year the city or county receives one-half funding under section 106(b). This provision does not shift funding from the entitlement program to the State's program. It merely provides, in determining the allocation among States under the State's program, for the inclusion of 50 percent of the values for these transition entities for the year they receive one-half funding. Since these communities would be eligible to compete for State funds, this provision ensures that the State receive additional funds commensurate with the number of transition communities they may have competing.

MISCELLANEOUS AND TECHNICAL AMENDMENTS**Change in the Base for Administrative Expenses
for the Small Cities Program**

Section 106(a) would amend section 106(d)(3)(A) of the Housing and Community Development Act of 1974 to provide that a State may not deduct administrative expenses from amounts received for distribution in nonentitlement areas in excess of the sum of \$100,000 (\$102,000 under current law) plus 50 percent of a State's administrative expenses above \$100,000. The \$102,000 base is apparently a typographical error.

Triennial Report

Subsection (b) would amend section 113 of the 1974 Act to provide that the Secretary furnish an annual report on the CDBG program not later than 180 days after the close of fiscal year 1985 and a triennial report for every three-year period thereafter. The current statute provides for the submission of an annual report. The fiscal year 1985 annual report would be the last one covering the UDAG program, which is proposed for repeal.

An annual report is no longer warranted since the CDBG program is firmly established and operates smoothly, and the Department anticipates no major changes in the way grantees administer the funds. Additionally, the administrative costs associated with the annual report would be reduced by implementing a triennial report.

MISCELLANEOUS REPEALERS

Section 107 would repeal several HUD community development and related authorities.

Lump Sum Drawdowns

Subsection (a) would repeal section 104(g) of the Housing and Community Development Act of 1974. Section 104(g) allows grantees to draw down in a lump sum up to the entire amount designated in their programs for rehabilitation activities before the funds are actually needed to finance the activities. The funds are deposited with local banking institutions pending disbursement. Any interest earned on these accounts is considered program income and must be spent on rehabilitation activities in accordance with program guidelines.

The lump sum provision for rehabilitation is unique in the Block Grant program. It is the only provision allowing for drawdown of funds before commitment. While use of the deposited funds must begin within 45 days, and substantial disbursement begin within 180 days of receipt, the fund itself can be used over a two-year period before remaining amounts are returned to the recipient's letter of credit. A recipient may extend the lump sum agreement beyond the two-year period. Actual drawdown amounts for fiscal years 1978 through 1981 (the latest years for which estimates are available) total as high as \$300 to \$400 million.

The current advance drawdown system forces the Federal government to borrow funds unnecessarily at high rates of interest long before their actual need and commitment to eligible

projects. The Inspector General issued a report dated May 11, 1983, which concluded that:

We did find . . . that the Federal Government was incurring substantial costs in order for grantees to earn program income The total benefits from all lump sum agreements in effect nationwide are estimated to be approximately \$600,000 less than the costs to the Federal Government for providing the lump sum drawdowns.

The most frequently cited rationale for having lump sum drawdowns is that they are necessary to achieve private participation usually referred to as leveraging. It was initially thought that allowing communities to draw down large amounts and place the funds in local banking institutions would encourage those institutions to offer more loans at lower interest to finance eligible activities. However, there are about 200 programs throughout the country involving significant private lending institution participation without lump sum agreements. Since the benefit of private participation can be achieved without resort to lump sum agreements, eliminating this feature would potentially save the Federal government millions of dollars in interest. Given the concern with the current budget deficits, lump sum drawdowns should be eliminated.

No revolving loan fund could be established or extended on or after the effective date of repeal but those established before repeal would continue in effect until expiration, and

would continue to be governed by the provisions of section 104(g) as they existed before repeal.

Discretionary Fund Grants for New Communities

Subsection (b) would repeal section 107(b)(1) of the 1974 Act which authorizes the Secretary to make grants from the discretionary fund established under section 107 in behalf of new communities. Activity under the various new communities authorities is phasing out and there is no longer any need for authority to make grants under section 107(b)(1) for this purpose. No grant could be made on or after the effective date of repeal, but grants made before repeal would continue to be governed by the provisions of section 107(b)(1) as they existed before repeal.

Loan Guarantees

Subsection (c) would repeal section 108 of the 1974 Act. This section provides for guarantees of notes and other obligations issued by units of general local government or by public agencies designated by such units for financing the acquisition of real property or the rehabilitation of real property owned by the unit of general local government.

Termination of this program is consistent with Administration policy intended to reduce the pressure that Federal loans and loan guarantees place on the Nation's credit markets, by encouraging recourse to individuals and private financial institutions as the primary source of credit. Termination of this program is further indicated by its low activity level (28 projects in fiscal year 1984). Activity

levels have been low enough to suggest the Community Development Block Grant (CDBG) funds could be used instead of section 108 loan guarantees in many projects. This would eliminate unnecessary and unintended costs to the Federal government and the misallocation of the Nation's resources.

No guarantee could be made by the Secretary under section 108 on or after the effective date of repeal, except pursuant to a commitment to guarantee made before the repeal. Any guarantee made under section 108 would continue to be governed by the provisions of section 108 as they existed before repeal.

Urban Development Action Grants

Subsection (d) would repeal the Urban Development Action Grant (UDAG) program by amending sections 107(d) (Secretary's discretionary fund) and repealing sections 119 (UDAG) and 121 (historic preservation) of the 1974 Act. The definitions in sections 102(a)(13)-(16) would also be repealed since they relate solely to the UDAG program. The repeal is contained in subsections (d)(1); conforming changes are contained in subsections (d)(2)-(6).

The repeal of the UDAG program is part of the Administration's overall effort to reduce the budget deficit by eliminating programs for local economic development. This effort would result in nearly \$2 billion in savings over a three-year period, which would include \$359 million in UDAG savings. Communities will continue to have CDBG funds to use for economic development projects.

No UDAG grants would be made after the grants awarded in the last funding round for large cities and urban counties in fiscal year 1985. The decision date for the last round under 24 CFR 570.460 is September 30, 1985. Grants made under section 119 would continue to be governed by sections 102(a), 107(d), 119, and 121 as they existed immediately before the effective date of the amendment.

Any amount that, absent repeal, would have been available for preliminary approval of grants on or after October 1, 1985, would be rescinded.

Section 235(h)(2)(ii) would be amended to indicate that the reference to units also funded under section 119 means section 119 as it existed before repeal.

This proposal would not amend section 103(b)(6) of the Internal Revenue Code, which allows a tax exemption in connection with bonds on "certain small issues" even if such bonds would otherwise be disqualified as industrial revenue bonds. This section would continue to apply to UDAG projects underway and would expire on December 31, 1988.

Rehabilitation Loans

Subsection (e) would repeal the Rehabilitation Loan program contained in section 312 of the Housing Act of 1964, which authorizes direct loans to property owners and tenants to finance the rehabilitation of residential and business properties. Programs such as section 312 which combine ongoing subsidies with loans are not an efficient mechanism of providing assistance when

compared to programs which split the subsidy from the financing so each element can be developed on a independent basis. No loan could be approved under section 312 on or after the effective date of repeal. Any loan approved under section 312 would continue to be governed by the provisions of section 312 as they existed before repeal.

These section 312 functions are eligible for funding under a number of existing eligible activities in the Community Development Block Grant program. For example, section 105(a)(4) includes as an eligible activity the rehabilitation of buildings and improvements, including the financing of public or private acquisition of privately-owned properties for rehabilitation and the rehabilitation of those properties. Section 105(a)(14) provides that block grants may be used, among other things, to finance the rehabilitation of commercial or industrial buildings or structures and other commercial or industrial real property improvements. Finally, section 105(a)(15) allows block grants to be used for a wide range of rehabilitation activities undertaken by neighborhood nonprofit groups, local development corporations and small business investment companies. In light of this CDBG existing authority, continuation of the section 312 program is no longer necessary or desirable.

The proposal would retain provisions of section 312 concerning the creation and uses of the program's revolving fund. These provisions would be retained to ensure that funds for servicing and liquidating section 312 loan contracts would be available until September 30, 1986 or until the assets and

liabilities of the fund are transferred to the Revolving Fund (liquidating programs), whichever is earlier. The provision also would make clear that, at the least, the monies in the Revolving Fund (liquidating programs) derived from the section 312 loan fund may be used for necessary expenses (including the use of private contractors) for servicing (including protection of security) and liquidating section 312 loans.

Effective Date

This section would become effective on the later of October 1, 1985 or the date of enactment.

URBAN HOMESTEADING

Section 108 of the bill would amend section 810 of the Housing and Community Development Act of 1974 to provide funding authorizations for fiscal years 1986 and 1987 for the Urban Homesteading program and to permit States and units of general local government to charge consideration for properties transferred to prospective homesteaders.

Funding Authorization

Subsection (a) would authorize \$12 million for the Urban Homesteading program for each of fiscal years 1986 and 1987.

Authorize Localities to Convey Urban Homesteading Properties for Some Consideration

Subsection (b) would amend section 810 of the 1974 Act to permit States and units of general local government to transfer properties for some financial consideration to homesteaders whose incomes exceed 80 percent of the median income for the area, as determined under section 3(b)(2) of the U.S. Housing Act of 1937. Any consideration received by the State or locality would be returned to the Treasury Department.

Section 810 now prohibits States and localities from charging consideration when conveying property to the homesteader on a permanent basis. States and localities are not allowed to charge more than nominal consideration for conditional conveyance of the property.

This proposal would permit States and localities that are transferring homestead properties to charge consideration to non-

lower income individuals who are capable of paying something for the property. States and localities could charge the full amount of such consideration at either the conditional conveyance or fee simple title conveyance stage or split such consideration to be paid between both stages. Permitting States and localities to charge these individuals would avoid the possibility of an individual realizing excessive gain from the homesteading program. This proposal would not conflict with the 1983 Act's requirement that essentially lower income prospective homesteaders be given a priority in the award of homestead properties. In no event would a State or locality be permitted to charge an individual at or below 80 percent of area median income any consideration for homestead properties. The proposal would merely permit a State or locality that had no applicants meeting the priority, or whose priority applicants refused available properties, to charge a prospective homesteader who could afford it something for the property rather than give it away.

While requiring all funds collected to be returned to the Treasury offers no incentive for States or localities to charge consideration, permitting States or localities to keep any portion of such proceeds could conflict with the goal of giving a priority to low-income prospective homesteaders who would not be able to contribute. Rather than risk giving States or localities an incentive to charge consideration even where not appropriate, the proposal would not permit States or localities to benefit financially from charging consideration and, therefore, would avoid the potential weakening of the "lower income" priority.

EFFECTIVE DATE

Section 109 would provide that the amendments made by sections 101 through 106 would apply only with respect to funds available for fiscal year 1986 and thereafter.

TITLE II -- HOUSING ASSISTANCE PROGRAMS

PART A -- GENERAL

ANNUAL CONTRIBUTIONS FOR LOWER INCOME HOUSING PROJECTS

Section 201(a) would amend section 5(c) of the U.S. Housing Act of 1937 to authorize \$499,000,000 of new budget authority for the assisted housing programs funded through section 5(c). Because the focus of program level control has shifted over the past several years to the amounts of budget authority, contract authority is requested only in such amounts as are consistent with the budget authority increase.

The amount of new budget authority, together with amounts expected to be carried over from fiscal year 1985, would fund an annual program at the level of \$1.4 billion. This program level reflects the first year of a proposed two-year moratorium, during which only certain ongoing requirements would be funded. These are described below:

Public and Indian Housing Development. The 1937 Act provides for locally operated public and Indian housing programs. Currently, HUD provides financial assistance through the use of Annual Contributions Contracts (ACCs) to cover the debt service on bonds and notes issued for the construction and modernization of projects owned and operated by local public housing agencies, including Indian housing authorities (PHAs and IHAs, respectively).

For fiscal year 1986, no new development activity is proposed for public and Indian housing. Contract amendments for

public and Indian housing projects under development will be funded on a one-year basis. A portion of the budget authority available for amendments also will be used for IHA off-site water and sewer projects where necessary. The amount of budget authority anticipated to be required for the foregoing amendments is \$82.3 million.

Starting in fiscal year 1987, Federal financing for development would be through one-time capital funding, as more fully described in connection with section 211 of this bill.

Public and Indian Housing Modernization. Currently, authority for modernization funding enables PHAs and IHAs to obtain capital funds (loan authority) to correct physical and management deficiencies and achieve operating efficiency and economy. Since 1981, modernization has been performed pursuant to section 14 of the U.S. Housing Act of 1937, which provides for a Comprehensive Improvement Assistance program (CIAP) to improve the physical and management conditions of existing public and Indian housing projects. Under CIAP, PHAs and IHAs may perform alterations, additions, demolition, or rehabilitation of existing structures and the replacement of nonexpendable equipment, and upgrading the management and operation of their projects in order to assure that they continue to be available to serve lower income families.

The budget authority for section 14 is provided in section 5(c). For fiscal year 1986, \$175 million is expected to be required for emergency needs. The proposed authorization language includes a limitation on the use of all budget authority

in fiscal year 1986 to \$175,000,000 for section 14 emergencies. Beginning in fiscal year 1986, the Department will fund modernization using one-time capital contributions rather than long-term loans. The level of funding requested for modernization reflects a one-year partial moratorium. HUD expects to be requesting higher funding levels, more consistent with historical levels for modernization, starting in fiscal year 1987.

Section 8 Housing Assistance Payments, Vouchers, and Section 23 Leased Housing. The section 8 Housing Assistance Payments program (except for section 8 Housing Vouchers) provides a subsidy based on the difference between the rent (including utilities) for the unit and the family contribution (usually 30 percent of adjusted income).

The Housing Voucher Demonstration program was authorized by the Housing and Urban-Rural Recovery Act of 1983 under section 8(o) of the 1937 Act. The initial Voucher subsidy is generally based on the difference between an established payment standard for each market and 30 percent of adjusted income. A major innovation of the Voucher program is that it does not place a limit on the rent which tenants may pay. Tenants may live in units which have rents higher than the payment standard, and pay the difference from their own resources. Conversely, tenants who choose to rent units below the payment standard are permitted to keep the difference, subject to a minimum rent payment. This results in a "shopping incentive" for tenants to locate units in the market which best meet their individual needs.

For 1986, of the \$1.4 billion in budget authority which would be newly authorized (\$499 million) and carried over (\$892 million), about \$1.1 billion would be for the section 8 programs, including the Voucher program, and for the section 23 Leased Housing program. HUD's current plans call for use of this authority approximately as follows:

-- Vouchers for tenants displaced when a Section 8 project owner chooses to end participation in a program ("opt-outs") and for tenants displaced as a result of public housing demolition: \$65 million.

--Amendments for section 8 projects: \$421 million. This includes section 8 project reserve amendments (including those for section 202/8 projects) as well as amendments for section 8 projects (not including section 202/8) in the pipeline to bring them to construction start.

--Amendments to section 202/8 contracts to allow projects in the pipeline to start: \$150 million.

--Property disposition activities: \$350.1 million. This is to allow the sale of multifamily properties in which lower income tenants reside with section 8 existing housing assistance.

--Loan management activities: \$84.4 million. This provides additional section 8 existing subsidies to projects in financial difficulty.

--Adjustments under the section 23 Leased Housing program, and conversion of units under that program to section 8 assistance. Lease agreements in this program were for a period of 5 to 10 years with options to renew up to a maximum of 20 years. Adjustments to the existing contracts are made to cover unavoidable increases in the operating and maintenance costs of leased units as well as to provide interim transition assistance to projects that are being converted to the section 8 Certificate program: \$63.8 million.

Section 201(b) would amend section 9(c) of the U.S. Housing Act of 1937 to provide that the authorizations for appropriations starting in fiscal year 1985 are to be in amounts for "such sums as may be necessary" for operating subsidies for lower income housing projects under section 9, rather than a specific dollar amount. The fiscal year 1985 authorization was in the form of "such sums..." and the existing statutory language may be construed as authorizing "such sums" in 1986 and later years. As so construed, the amount for operating subsidies would be set only in the appropriation process. The proposed clarifying change in the statutory language would confirm this result.

Operating subsidies are provided in accordance with section 9 of the 1937 Act to PHAs and IHAs for dwellings they own. The subsidies are provided to help meet operating and maintenance expenses. Annual subsidy requirements are calculated on the basis of a formula--the Performance Funding System (PFS)--which takes into account what it would cost a comparable, well-managed PHA or IHA to operate its units. In addition to PFS needs, requirements are calculated separately for certain areas which have unusual circumstances--for example, Alaska, Guam, Puerto Rico, and the Virgin Islands--and certain types of projects such as Homeownership and Mutual-Help.

The 1986 Budget proposes an appropriation of \$1,010,600,000 for paying operating subsidies. In addition, the Budget proposes a rescission of \$253.1 million in 1985, since resources available for 1985 (including \$15 million made available for modernization planning under section 14) are estimated to be in excess of currently anticipated funding requirements.

PREVENTING FRAUD AND ABUSE IN HUD PROGRAMS

Section 202 contains provisions to help prevent fraud and abuse in HUD programs. Subsection (a) would authorize HUD to require applicants and participants (including all household members) in HUD programs involving loans, grants, interest or rental assistance, or mortgage or loan insurance to provide their social security numbers or employer identification numbers, as a condition of initial or continuing eligibility for participation. Legislation to require social security numbers (SSNs) is needed because section 7(a)(1) of the Privacy Act bars mandatory disclosure of SSNs unless there is an exemption provided in Federal statute. Both the Food Stamp and Aid for Dependent Children (AFDC) programs have had such exemptions enacted.

Subsection (b) would authorize HUD to require applicants or participants (including all household members) to sign a consent form as a condition of initial or continuing eligibility for participation in HUD programs involving initial or periodic review of participants' incomes. The Department intends to require the consent form for all such assistance programs under the National Housing Act, the U.S. Housing Act of 1937, and section 202 of the Housing Act of 1959. The consent form would authorize (1) the Secretary or the entity administering the program (PHAs and private owners) to verify information furnished by such applicants or participants and (2) Federal, State, or

local government agencies or private entities such as employers, to release information relating to the determination or verification of eligibility or benefit level (other than tax return information), to HUD or administering entities (PHAs and private owners). Failure of an applicant to consent to the release of information pursuant to this section would be grounds for rejection of the application or termination of participation in the program involved. An applicant or participant would have the right to obtain, examine and correct any information which the Secretary, PHA or owner responsible for determining eligibility or level of benefits has received under this section, unless a criminal investigation were pending. All individually identifiable information provided to the Department would be subject to the controls of the Privacy Act.

The Department encourages States and localities participating in its community development programs to adopt similar fraud and abuse programs.

Subsection (d) would amend the Social Security Act to give the Secretary and PHAs (but not private owners) access to data bases (not including tax return information of the Internal Revenue Service) maintained by State unemployment agencies. This authority would permit HUD and PHAs to take advantage of automated methods for performing large numbers of income and address verifications--often called "machine matching"--at one time.

The automated wage data maintained by the States is collected from employers by State employment security agencies to

determine eligibility and benefits under the unemployment insurance program. In 38 States, this data is reported for each employee quarterly and is generally considered to be the best wage information for verification purposes. The Federal Unemployment Tax Act does not preclude the State employment security agencies from providing State wage data to other programs, although they are not required to do so. Congress has required that access to this wage data be made available for both the AFDC and Food Stamp programs, thus permitting machine matching for these programs.

Because many of the State agencies also have State privacy acts and other legislative restrictions, there is often some reluctance to voluntarily disclose wage information to other agencies. The Administration believes that legislated access is needed to assure that meaningful verification on an automated basis can be carried out in all States.

Access to Federal, State and local data bases is essential to enable the Department and the PHAs to undertake post-audit, quality control, and other investigative reviews based on computer matching to such data bases. Requiring release of social security numbers, execution of consent forms, and access to State unemployment agency information would facilitate this process.

Private owners would continue to verify information supplied by applicants and participants at the time of application and annual recertification, but only HUD and the PHAs would be authorized to have access to government data bases. The

authority provided under this section would help the Department to assure that complete and accurate information has been submitted by beneficiaries of HUD programs. The HUD Office of Inspector General estimates that at least \$200 million is spent annually in Section 8 assistance for tenants who are ineligible or are receiving more than is allowable. Benefits now going to ineligible families under the section 8 and other covered programs would become available for legitimately eligible program participants. Replacing ineligible households with eligible households will not necessarily save money but it will ensure that limited Federal funds are going to the right people and are being spent for the purpose intended.

In the past, such provisions have been recommended for HUD specifically or for the Federal government as a whole by the HUD Inspector General's Office, the Grace Commission and the General Accounting Office. This proposal is also supportive of Departmental initiatives relating to waste and fraud.

REVISED DEFINITION OF DISABILITY

Section 203 would amend the definition of "disability" contained in section 3(b)(3) of the U.S. Housing Act of 1937 and the definition of "developmentally disabled individual" contained in section 202(d)(4) of the Housing Act of 1939 to conform to the current Department of Health and Human Services (HHS) definition of "developmental disability," contained in section 102(7) of the Developmentally Disabled Assistance and Bill of Rights Act as codified at 42 U.S.C. 6001. The current definitions refer to the HHS definitions in effect before an amendment to the term "developmental disability" made most recently by section 503 of Public Law 95-602 and to an amendment to the short title of the Act made most recently by Public Law 94-103.

Section 3(b)(3) of the U.S. Housing Act of 1937 and section 202(d)(4) of the Housing Act of 1939* now provide that individuals who are disabled, as defined by section 102 of the Developmental Disabilities and Facilities Construction Amendments of 1970 (P.L. 91-517), are considered "families" who may be eligible for housing assistance under those programs. Individuals may also qualify under these statutes if they fall within certain other classes, including those who are handicapped. Only the reference to the definition of developmental disability in the 1970 Act would be changed.

* Section 202, as it now exists, refers to "section 102(5)" of the "1950 Act." A footnote to the U.S.C. indicates that "section 102(a)(5)" and "1970 Act" were probably intended.

Section 102 of the Developmental Disabilities and Facilities Construction Amendments of 1970 defined "developmental disability" as

"a disability attributable to mental retardation, cerebral palsy, epilepsy, or another neurological condition of an individual found by the Secretary [of Health, Education and Welfare] to be closely related to mental retardation or to require treatment similar to that required for mentally retarded individuals, which disability originates before such individual attains age eighteen, which has continued or can be expected to continue indefinitely, and which constitutes a substantial handicap to such individual."

Section 102(7) of the Developmentally Disabled Assistance and Bill of Rights Act currently defines "developmental disability" as

"a severe, chronic disability of a person which--

(A) is attributable to a mental or physical impairment or combination of mental and physical impairments;

(B) is manifested before the person attains age twenty-two;

(C) is likely to continue indefinitely;

(D) results in substantial functional limitations in three or more of the following areas of major life activity: (i) self care, (ii) receptive and expressive language, (iii) learning, (iv) mobility, (v) self-direction, (vi) capacity for independent living, and (vii) economic self-sufficiency; and

(E) reflects the person's need for a combination and sequence of special, interdisciplinary, or generic care, treatment, or other services which are of lifelong or extended duration and are individually planned and coordinated."

Revising the definitions would not significantly change the current coverage of these programs. The new definition is somewhat more expansive in that it includes some additional disabilities for which coverage was previously unclear, and the age of onset shifts from before age 18 to before age 22. Neither of these changes, however, significantly increases the eligibility pool since most of these individuals would also be eligible as "handicapped" persons under the two statutes.

There are at least three benefits to be derived from the proposed change. First, the proposed change would help clarify the legal validity of the definition of "developmental disability." Second, updating the definition to the one currently used by HHS promotes consistency between HUD and HHS when housing and disability benefits are coordinated at the State and local level. Third, changing from the superseded definition to the one now applicable to HHS assures that the Department can use the currently accepted statutory definition of developmental disability.

PART B -- PUBLIC AND INDIAN HOUSING**PUBLIC AND INDIAN HOUSING FINANCING REFORMS**

Under Section 211 the Department is proposing a major reform to the method the Federal government uses to pay for public and Indian housing development and modernization. Generally, under this reform, the Federal government would provide one-time direct funding for the capital costs of projects, instead of the current multiyear debt service commitments and complex loan arrangements. The reform would not apply to projects that have already been financed with permanent notes sold to the Federal Financing Bank and bonds sold in the private market. Implementation of this reform for the development of public and Indian housing requires legislative changes to the U.S. Housing Act of 1937. No change in authorizing legislation is required to provide for one-time contributions for modernization under section 14 of the 1937 Act.

The financing of public and Indian housing projects under the proposal would limit the growth of tax-exempt financing. The major Federal costs for these projects would thus be "up front," rather than being incurred as direct outlays and tax expenditures over long periods of time. Further, HUD and public housing agencies (PHAs) and Indian housing authorities (IHAs) would be able to save on accounting and administrative costs relating to servicing the loans.

The proposed approach would not have a substantive effect on the public and Indian housing projects themselves. The proposed reform would not affect the responsibilities of IHAs and PHAs to maintain the lower income character of the projects, or the

eligibility of projects for operating subsidies under section 9 or modernization funding under section 14 of the 1937 Act.

The proposed reform would apply to three classes of projects, as described below.

The first class of projects covered by the reform are those that receive new Federal commitments beginning in fiscal year 1988 for development and in fiscal year 1986 for modernization. (The different starting points reflect the Budget proposals for the two programs.) Historically, financing for such projects has been with a 20- to 40-year Federal commitment to make annual contributions for principal and interest payments on tax-exempt notes ("project notes") and bonds sold on the private market, and on permanent notes sold to the Federal Financing Bank. In fact, sales of new bonds on the private market were discontinued in June 1974, and sales of permanent notes to the Federal Financing Bank terminated in December 1983. Under the proposed reform, public and Indian housing projects developed or modernized would be financed on the basis of fully funded, one-time Federal contributions of assistance to the PHAs and IHAs.

The second class to which the reform would apply are those projects for which development has been completed and the Federal financial commitment has been funded with short-term, tax-exempt notes. This class includes notes issued both for the development of new projects and the modernization of existing projects. These projects have been financed as follows:

Until September 1984, project notes were issued by the PHAs and IHAs and sold in the private market. As they became due, they were refinanced ("rolled over"). HUD made annual contributions on behalf of PHAs and IHAs, thereby incrementally retiring the principal and interest costs on these notes.

Since September 1984, the Department has borrowed from the Treasury, and redeemed on behalf of PHAs and IHAs the project notes as they matured. Accordingly, the PHAs and IHAs are indebted to HUD for the amounts of these loans. Notwithstanding that these amounts are owed to HUD, HUD continues to make the annual contributions on this PHA and IHA indebtedness. (The switch to direct loan financing was the result of provisions first enacted in the Tax Reform Act of 1984 that clouded the tax-exempt status of short-term public and Indian housing notes.)

Under the reform proposal for this class of projects, the project notes, together with the annual contributions HUD makes to PHAs and IHAs, would be eliminated. Instead, this class of projects would be treated in the following way:

As project notes mature:

- Treasury would make direct loans to HUD; and
- HUD would use these funds to make direct loans on behalf of PHAs and IHAs, which in turn would be used to retire the project notes.

After the notes have been retired:

- The Treasury loans to HUD would be forgiven annually;
- the PHAs' and IHAs' indebtedness to HUD with respect

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to new retired notes would be forgiven at appropriate times, as determined by the Secretary (usually when the actual total development cost for the project has been determined):

- HID would automatically recapture the unobligated budget authority, and the associated contract authority, made available by cancellation of the FFA and IRA loans; and
- provided in a provision such as the one carried in HUD's fiscal year 1983 appropriations Act, this budget authority and contract authority would be rescinded.

The third class of projects covered by the reform are those projects still in the development stage—those in the pre-construction and construction pipeline. All these projects are expected to be completed by fiscal year 1991. Under the present system, HUD borrows amounts from the Treasury to provide advances to FFA's and IRA's to fund the development and modernization of the projects.

Under the reform, HUD would continue to borrow from the Treasury and make advances, until the FFA or IRA has completed project development or modernization. As in the second class of projects, HUD's Treasury borrowings to make these loans would be forgiven on an annual basis; the FFA's or IRA's indebtedness to HUD would be forgiven by the Secretary from time to time, as appropriate (usually when the actual total development cost for the project has been determined); and HUD would recapture the

unliquidated budget authority and associated contract authority, to be rescinded under the terms of an appropriation Act.

Through January 1985, the Department has borrowed approximately \$8.9 billion from the Treasury to fund direct advances for development and modernization, and to retire maturing project notes for the second and third class of projects. It is expected that the total short-term, tax-exempt project note inventory (which as of September 30, 1984 amounted to \$13.0 billion) would be retired by the end of August 1985.

Budget authority to be recaptured, under the reform proposal as a whole, representing in some cases a 40-year Federal commitment, is estimated to amount to \$22.3 billion in fiscal year 1985.

Adoption of the foregoing proposal would require certain amendments to the 1937 Act, as described below:

Section 211(a) of this bill would amend section 4 of the 1937 Act to limit the Secretary's authority to make temporary loans to PHAs and IHAs under section 4(a) only to public housing projects for which funding reservations have been made before October 1, 1986. Thus, projects that do not have funding reserved by that date would not be developed with temporary financing under section 4(a), but would be funded through the new system of one-time capital contributions. Projects with funding reservations by October 1, 1986 would continue to be financed under the terms of section 4(a). As noted above, implementation of the new system for modernization projects would begin in fiscal year 1986.

Section 211(b) would further amend section 4 to provide for forgiving the Secretary's loans to PHAs and IHAs under section 4(a). A limited class of loans -- those that were not intended to be repaid from annual contributions -- would not be forgiven. The latter loans, amounting in the aggregate to about \$13 million, would be either pursued to collection, or written off in accordance with existing standards and procedures, rather than being forgiven under this proposal. Similarly, where amounts are owed PHAs and IHAs by third parties, these debts would not be forgiven. Finally, the amendment would make clear that forgiving PHA and IHA indebtedness would not affect their other obligations under the annual contributions contract.

Section 211(b) would also provide for the cancellation of the Secretary's debt to the Treasury under section 4(b).

Section 211(c) would provide for termination of the annual contributions method of financing public housing, except for projects that have funding reserved by October 1, 1986. This provision also contains the authority for the new financing method -- one-time capital contributions, in lieu of annual contributions -- starting in the case of development with projects to be funded on October 1, 1987 and thereafter. Resumption of funding for new projects in fiscal year 1988 is consistent with the Administration's two-year moratorium on incremental assisted housing.

Finally, section 211(c) includes the first of a number of amendments that are technical and conforming in nature. The balance of these amendments is set forth in the remainder of section 211. By and large, these amendments adjust the terms of

the 1937 Act to accomodate one-time capital contributions contracts, in addition to annual contributions contracts. None of these changes is intended to have a substantive impact on projects financed with annual contributions contracts. Similarly, none of the changes is intended to provide any preference or prejudice in the treatment of projects financed with the one-time capital contributions contracts, as compared with annual contributions contracts. Only one of these technical changes amounts to more than a change in a few words: section 211(k)(1)(B) would provide for a parallel method for determining and using the proceeds of disposition of a project, if the project is financed using one-time contributions. The provision, which would amend section 18 of the 1937 Act, is intended to treat such projects in a manner comparable to how projects financed with annual contributions are treated.

**EXEMPTION OF PUBLIC HOUSING HOMEOWNERSHIP PROGRAMS FROM
PROVISIONS PERTAINING TO RENTS PAYABLE BY TENANTS**

Section 212 would amend section 3(a) of the U.S. Housing Act of 1937 to permit families participating in lease-purchase homeownership programs under the Public Housing program to pay a greater portion of their incomes for rent than is currently allowed. The primary purpose of the amendment is to mitigate hardship situations that occasionally arise for homebuyers under the existing Turnkey III Homeownership Opportunities program.

The Turnkey III program permits lower income families to acquire homeowner status with the assistance of a Federal debt service subsidy. Participation is limited to families with real economic potential for assuming the full obligations of homeownership upon acquisition of title after a reasonable period of tenancy, on the rationale that homeownership is appropriate to the needs of lower income families only if they have such homeownership potential. The amount of the homebuyer's required monthly payment is, however, subject to the limitations of the 1937 Act's tenant rent formula stated in section 3(a). A decrease in family income or an increase in relevant project budget items or utility costs may thus result in a required monthly payment under the section 3(a) formula which is less than the amount required to meet reasonable homeownership potential requirements.

Under these circumstances, the homebuyer is no longer eligible to participate in the existing homeownership program and is subject to termination of the lease-purchase agreement and transfer to rental status as a regular public housing tenant.

Although the current regulation provides for some forbearance where there is a reasonable prospect that the homebuyer will regain the requisite homeownership potential, a regulatory change to allow extended forbearance is not an acceptable solution because it risks jeopardizing the overall financial viability of the Turnkey III project.

The proposed amendment would allow the Secretary, by appropriate regulations, to permit a homebuyer, at his or her individual option, to pay the higher amount required to maintain homeownership potential. Alternatively, the homebuyer would have the option to continue to pay no more than the section 3(a) amount, and agree to termination of the lease-purchase agreement and transfer to public housing rental status. Regular HUD reviews would assure that the amounts which the PHA budgets as the basis for homeownership potential are reasonable for the current needs of the particular unit and project.

This change will allow flexibility to increase monthly payments by the homebuyer, which is appropriate in light of the additional financial benefits and responsibilities of homeownership. The homebuyer would decide on the upper limit of payment which is acceptable. This change is made in lieu of permitting the alternative, continuing operating subsidy for homeownership projects, because that alternative would continue in homebuyer status many families who would not be able to pay operating costs and, therefore, do not really possess homeownership potential.

This proposal would provide the same exemption from section 3(a) for the Turnkey III program and other public housing lease-purchase arrangements that has been provided for the Mutual Help Homeownership Opportunity program, which is limited to Indian Housing Authorities. It would thus result in consistency among all 1937 Act homeownership programs that involve lease-purchase arrangements.

PUBLIC HOUSING AGENCY RECEIVERSHIP

Section 213 would amend section 6 of the U.S. Housing Act of 1937 to authorize the Secretary to apply to a Federal or State court for appointment of a receiver for a public housing agency if, in the opinion of the Secretary, the PHA is in substantial default of the covenants and conditions to which it is subject. If the court determines that such a substantial default has occurred, a receiver is to be appointed without regard to collateral questions sometimes considered under common law standards such as the availability of alternative remedies. Also, the amendment empowers the Secretary to petition the court for appropriate temporary or preliminary relief pending the court's determination of whether to appoint a receiver. Injunctive relief, such as freezing the assets of the agency or mandating remedial actions, may be appropriate where it appears that project assets are being misused or that health and safety violations are present. The receivership would terminate upon petition by the Secretary or when the court determines that all defaults have been cured and that the public housing projects of the PHA will be operated by it in accordance with the ACC and the Act.

Under current law, the Secretary is authorized, upon the occurrence of a substantial default, to require either conveyance of title or delivery of possession of a project to HUD. This remedy, because it operates only at the project level, is inadequate to address PHA deficiencies that may exist at the administrative or policy level. However, the amendment

recognizes that PHAs are created under State law and their governing bodies are appointed by State or local officials. Accordingly, direct HUD usurpation of the internal administration of a State-created entity would be inappropriate. Receivership provides independent, court-supervised management of PHA affairs, obtainable only upon HUD's demonstration of the substantiality of the default requiring such intervention.

To enhance clarity and continuity, subsection (g) would be redesignated as subsection (f), and the PHA receivership amendment would be designated subsection (g). Subsection (f) was repealed by section 214(b) of the Housing and Urban-Rural Recovery Act of 1983.

PART C -- OTHER ASSISTED HOUSING

AUTHORIZATION FOR INCREASING BORROWING AUTHORITY FOR
DIRECT LOANS FOR HOUSING FOR THE ELDERLY OR HANDICAPPED

Section 221 would amend section 202 of the Housing Act of 1959 to increase HUD's authority to borrow funds from the Treasury by such sums as are necessary for making direct loans for elderly and handicapped housing projects. Borrowing authority was authorized in this form for fiscal year 1985, and the proposed amendment would make this form of authorization permanent.

The President's Budget for Fiscal Year 1986 proposes a two-year moratorium in approvals for new section 202 projects. The Budget provides, however, for the addition of \$50 million in direct loan authority to be used only for amending commitments for approved projects, which are not as yet completed. The amendment under this section to increase borrowing authority as needed would assure the necessary authorization for funding of these increased loan commitments.

Action in an appropriation Act is needed, and language for such an Act has been proposed in the Budget, to release the \$50 million of direct loan authority, and to provide for the requisite borrowing authority as would be authorized by the amendment to section 202 made by this proposal.

**ESTABLISHMENT OF SECTION 8 FAIR MARKET RENTS
FOR EXISTING HOUSING**

Section 222 would provide for a one-year suspension in establishing section 8 fair market rents for existing housing, with the fiscal year 1985 fair market rents continuing in effect for fiscal year 1986. These fair market rents are also the amounts used as the payment standards for the Housing Voucher program.

This proposal would hold rents constant for one fiscal year in furtherance of the Administration's objective of reducing the Budget deficit by cutting Federal outlays. With the rate of rent increases reflecting the reduced inflation rate of the past year, this one-year suspension can be implemented without substantial impact on the program.

**PERMANENT HOUSING VOUCHER PROGRAM;
REPEAL OF MODERATE REHABILITATION PROGRAM**

Permanent Housing Voucher Program

Section 223(a) would amend the Housing Voucher program contained in section 8(o) of the U.S. Housing Act of 1937, as added by section 207 of the Housing and Urban-Rural Recovery Act of 1983, to convert it from a demonstration to a permanent program and to remove the requirement that substantially all of the Voucher authority be used in connection with the Rental Rehabilitation program and for displacees under the Development Grant and the FmHA Housing Preservation Grant programs.

The Housing Voucher program is based on the findings of the Experimental Housing Allowance program, the largest social science experiment ever conducted by the Federal government, and on the experience of the Section 8 Existing Housing Certificate program. These programs demonstrate that this type of subsidy mechanism improves the housing conditions of eligible families at a cost much lower than required for traditional, project-based approaches, benefits families by giving them freedom to choose their own units, and works well in virtually all areas of the country in all types of housing markets. Thus, the Housing Voucher program is based on premises already well-tested. HUD will continue with current and planned research to evaluate possible future needs for program refinements.

The Freestanding Voucher Demonstration now under way will provide a basic comparison of Vouchers and Certificates. In fiscal year 1985, an additional research project will be initiated to study Voucher use in rural and small PHA settings.

This combination of past and current studies covers the principal variable factors that affect the program, including performance in urban and rural markets, administration by State agencies and by local PHAs, administration by PHAs representing the full range of agency sizes, and the cost of administering the Voucher program in each of these settings.

By fiscal year 1986, PHAs in Rental Rehabilitation program localities, and in additional sites where demonstration programs are under way, will be administering Vouchers. The Voucher program thus will have become national in scope, and many PHAs will have experience with administering the program, contributing to the firm basis which exists for a permanent program.

Considering both the research findings already in hand and the actual program experience now under way, we believe there is an adequate base upon which to expand the use of Vouchers.

Repeal of Moderate Rehabilitation

Subsection (b) would repeal section 8(e)(2), which authorizes the section 8 Moderate Rehabilitation program. The Department plans no additional funding for the Moderate Rehabilitation program. The Department intends to rely on Vouchers to assist eligible families requiring rental assistance and to promote rehabilitation to increase the stock of standard, affordable rental housing through the Rental Rehabilitation program.

The Rental Rehabilitation program is an improvement on the Moderate Rehabilitation program in several key aspects. It

separates the rehabilitation and rental subsidies, and relies on private market forces to encourage owner participation and availability of rehabilitated units.

The Rental Rehabilitation program requires 100 percent lower income initial occupancy after rehabilitation (adjustable to 70 percent on an exception basis) with strong encouragement for participating governments to select neighborhoods and properties where unregulated market rents will remain affordable to tenants with a Housing Voucher. Moreover, the Rental Rehabilitation program provides greater mobility to lower income families with Housing Vouchers than possible under the section 8 Moderate Rehabilitation program and greater flexibility to the participating State and local governments in implementing a Rental Rehabilitation program. Finally, Housing Vouchers supported by Rental Rehabilitation will be a more frugal use of budget authority for housing eligible families than section 8 Moderate Rehabilitation. (A definitive comparison of long-term cost effectiveness of the two programs is not now available.)

In addition, subsection (b)(1) would permit the Secretary to increase the maximum monthly rental above the amount otherwise permitted where necessary to assist in the sale of HUD-owned multifamily projects. This would replace the authority the Secretary now has to provide increased assistance for these projects under the Moderate Rehabilitation program.

USE OF HOUSING VOUCHERS IN CONNECTION WITH RENTAL REHABILITATION

Section 224 would amend section 8(o) of the United States Housing Act of 1937 to expand eligibility for families to participate in the Housing Voucher program. Under section 8(o), as enacted in 1983, the Secretary was authorized to issue Vouchers to very low-income families (those with incomes of 50 percent or less of area median income) and to families continuously assisted under the 1937 Act. Section 102(a)(9)(B) of the Technical Amendments Act of 1984 provides that Housing Vouchers may also be issued to lower income families with incomes above 50 percent but not more than 80 percent of area median income (50/80 families) who are (1) determined to be lower income at the time they initially receive assistance and (2) displaced by Rental Rehabilitation program activity. Section 224 would extend the 1984 amendment to allow Vouchers to be issued to 50/80 families residing in these projects whose rent burden would be 30 percent or more of their adjusted income, based on post-rehabilitation rents. These families could use the Housing Vouchers to remain in their present units or to move.

The Rental Rehabilitation program is designed to increase the supply of standard, private market rental housing available to lower income tenants through the rehabilitation of substandard rental units and the provision of rental assistance to eligible families to help them pay the post-rehabilitation rents. The program has requirements for occupancy by lower income families immediately after rehabilitation and long-term performance standards for continued affordability for lower income families

(i.e., very low-income and 50/80 families). The program is designed to minimize the displacement of lower-income families residing in these substandard properties. This policy would be facilitated by this amendment.

Currently, Housing Vouchers can only be used for families with incomes at or below 50 percent of the area median, for families continuously assisted under the 1937 Act, and for 50/80 families who are displaced by Rental Rehabilitation program activity. Voucher assistance can be provided to the 50/80 families only if they are required to move from the rehabilitated project for reasons such as the rehabilitation itself or to alleviate overcrowding. Therefore, Vouchers presently provide no assistance to 50/80 families currently residing in rehabilitation projects where the post-rehabilitation rents would exceed 30 percent of their adjusted income. This proposal would provide Voucher rental assistance for these 50/80 families, permitting them to move or stay in place, thus reducing public relocation assistance costs as well as minimizing hardship for displacees.

Section 8 Certificates can now be used for 50/80 families whose rents would exceed 30 percent of adjusted income, subject to HUD approval on a case-by-case basis of the use of the 1937 Act's 5 percent exception authority under section 16(b). Use of Vouchers for families with these incomes also is subject to section 16(b). This proposed amendment will eliminate the inconsistency between Vouchers and Certificates and promote more efficient administration of the program at the local level. In

addition, it would permit the Department to assist such families in future years, since no Certificates are planned to be allocated for Rental Rehabilitation projects after fiscal year 1984.

ALLOCATION AND USE OF HOUSING ASSISTANCE

Section 225 would amend section 213 of the Housing and Community Development Act of 1974 to: (1) delete the provisions providing for comment by units of general local government on applications for housing assistance where the unit of government has a HUD-approved housing assistance plan (HAP); (2) provide for a single local comment process, based on the provisions now applicable to units of general local government without approved HAPs, that would apply to all applications for housing assistance (except for applications for 12 or fewer housing units in a single project or development); and (3) provide that, for fiscal year 1988 and later years, HUD would allocate housing assistance on an equal basis to metropolitan and nonmetropolitan areas.

Currently, section 213 distinguishes between applications for housing assistance based upon whether the proposed assistance is to be provided in a unit of general local government that has a HUD-approved HAP. In the case of an application involving a unit of government with an approved HAP, section 213 now requires that the Secretary (1) notify the chief executive officer of the locality that the application is under consideration, and (2) give the locality a 30-day period to object to approval of the application on grounds that the application is inconsistent with the approved HAP. If the unit of government objects on the basis of inconsistency with the HAP, the Secretary may not approve the application, unless the Secretary determines that the application is consistent with the HAP and gives the chief executive officer written notification of the determination and the reasons for it.

Subsection (a) would amend section 213(a) of the 1974 Act to delete the local review and comment procedures based on approved HAPs. This change is necessary to conform to the proposed amendments in section 103(e) of this bill that would delete the current requirement in Title I of the 1974 Act that CDBG entitlement communities certify that they are following a current, HUD-approved HAP. However, to assure that all appropriate units of general local government have an opportunity to comment on an application for housing assistance to be located in their jurisdiction, subsection (a) would extend the provisions of section 213(e), which now apply only to applications for housing assistance in areas without an approved HAP, to cover all applications, except for certain applications involving 12 or fewer housing units. Under this provision, the Secretary could not approve an application for housing assistance unless the Secretary determines that (1) there is a need for the housing assistance, and (2) there are or will be available in the area adequate public facilities and services to serve the proposed assisted housing. Additionally, the Secretary would be required to give the community a 30-day period before the Secretary's determination is made to provide comments or information relevant to the determination.

Subsection (a) would also delete provisions from section 213(b) that currently exempt from the notice and comment requirement applications for housing assistance relating to (1) new community developments under title IV of the Housing and Urban Development Act of 1968 or title VII of the Housing and

Urban Development Act of 1970, and (2) certain housing financed by loans or loan guarantees by States or State agencies. Since the new communities program has been terminated, the need for the exemption no longer exists. The exemption for State financing agencies has been of limited effect, since section 213(b)(3) also provides that the exemption does not apply where the unit of general local government in which the assisted housing is to be provided objects in its HAP to the exemption. Many localities have objected in their HAPs to the exemption. Therefore, repeal of the exemption for State financing agencies would continue the current prevailing practice of giving units of general local government the opportunity to comment on all applications for housing assistance, regardless of the source of the financing.

Subsection (b) would require the Secretary, beginning with fiscal year 1988, to allocate under the section 213(d)(1) formula not more than 50 percent of the total amount of available assistance to metropolitan areas and not more than 50 percent of such assistance to nonmetropolitan areas. Currently, the amount of such assistance allocated to nonmetropolitan areas is required to be in the 20 to 25 percent range. The proposed amendment is consistent with HUD's budget proposal to delay funding of incremental housing assistance for two years and the Administration's proposal to terminate funding for the FmHA's housing assistance programs. At the end of the moratorium, HUD would assume full responsibility for rural housing assistance needs. The even split between metropolitan and nonmetropolitan areas approximates the distribution of HUD and FmHA units between

1980 and 1984. The requirement for HUD to consult with the Secretary of Agriculture in determining how much section 8 existing housing assistance to make available under section 8(d) of the U.S. Housing Act of 1937 for use with the Housing Preservation Grant program under section 533 of the Housing Act of 1949 would be deleted, since funding under section 533 would be terminated.

Subsection (c) would amend section 213(a)(3) to delete the gender-specific term "he" and insert instead "the Secretary".

Finally, subsection (d) would amend the provision in section 213(d)(4)(E) that permits the Department to use a portion of the Secretary's reserve for lower income housing needs described in HAPs, including activities carried out under areawide housing opportunity plans (AHOPs). Subsection (d) would delete the references to HAPs and AHOPs, and instead would permit assistance to be used for projects approved by the Secretary to meet lower income housing needs. As noted above, section 103(e) of the bill would repeal HAPs. The reference to AHOPs would be deleted to reflect the fact that they are no longer used in Departmental programs.

**TENANT ELIGIBILITY DETERMINATIONS IN
RENT SUPPLEMENT PROJECTS**

Section 226 would amend section 101(e)(1) of the Housing and Urban Development Act of 1965 to eliminate the requirement that HUD, upon request by a Rent Supplement project owner, must issue certificates on the income of applicants and on whether they are occupying substandard housing, are involuntarily displaced, or are paying more than 50 percent of income for rent at the time assistance is being sought. The proposal would also amend section 101(k) to provide that the project owner, instead of the Secretary, shall give priority for available units to individuals or families who are occupying substandard housing or are involuntarily displaced at the time they are seeking housing assistance under the Rent Supplement program, and, as a conforming amendment, would add the additional priority for applicants who are paying more than 50 percent of income for rent.

Elimination of the HUD certificate provision is consistent with the general approach to tenant selection currently used in the Rent Supplement program, under which project owners have primary responsibility for making tenant selection decisions in accordance with HUD eligibility criteria and procedures. This proposal should have little or no effect on prospective tenants, since project owners have been making tenant selection decisions without certificates from the Secretary since 1972, except in those few cases where owners have asked for certificates. In addition, the proposal would make eligibility determinations under the Rent Supplement program consistent with the Section 8

and Public Housing programs, and would relieve HUD of the staff-intensive and costly burden of issuing certificates in those few instances where they are requested.

Adding the rent burden consideration to the list of priorities in section 101(k) is a technical conforming amendment to make this provision consistent with the current provisions of section 101(e) and the preference rules for the other affected assisted housing programs.

**REPEAL OF REQUIREMENT FOR SIGNIFICANT COMMUNITY
REPRESENTATION ON GOVERNING BOARDS OF
SECTION 202 PROJECTS**

Section 227 would amend section 202(d)(2)(B) of the Housing Act of 1959 to remove the requirement (added in 1978) that nonprofit entities receiving loans for developing housing for the elderly or handicapped must include, on their governing boards, members selected in a manner to assure significant representation of the views of the community in which the project is located.

A significant number of national organizations which are active sponsors of section 202 housing have objected strenuously to this requirement. The sponsors have pointed out that, as national organizations, it is impossible for them to have representatives on their governing boards from all communities in which they may wish to operate. Similar concerns have been expressed by State-wide housing corporations, as well as county and community groups, which find it difficult to have representatives from all areas in which they intend to operate. The existing requirement of section 202 curtails participation by many organizations which have been organized specifically to share resources and to develop a more comprehensive and coordinated approach to providing housing for the elderly or handicapped. With the exception of one or two isolated cases, there is no evidence of the need for this provision.

This section would also delete, as unnecessary, the requirement that the corporation have a governing board responsible for the operation of the housing project. This provision is unnecessary since all corporations have governing boards, and the overall purpose of their activities as stated in

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section 205(a)(1) is "to provide housing and related facilities for elderly or handicapped persons," which is broader than just "operation of the housing project."

**TECHNICAL AMENDMENTS TO THE
UNITED STATES HOUSING ACT OF 1937**

Section 228 would make several technical amendments to the United States Housing Act of 1937.

Subsection (a) would amend section 6(c)(4)(A) of the Act to change the placement of the clause providing a priority for public housing applicant families who "are paying more than 50 per centum of family income for rent" to follow "substandard housing" to make it consistent with other comparable provisions.

Subsection (b) would amend paragraphs (4) and (5) of section 6(k) of the Act to change "his" to "their" to conform to the plural subject (tenants) and to eliminate the gender-specific reference.

TITLE III -- PROGRAM AMENDMENTS AND EXTENSIONS

PART A -- FHA

EXTENSION OF FEDERAL HOUSING ADMINISTRATION
MORTGAGE INSURANCE PROGRAMS

Section 301 would extend (through September 30, 1987) the authority of the Secretary of Housing and Urban Development to insure mortgages or loans under certain HUD-FHA mortgage and loan insurance programs contained in the National Housing Act.

Under existing law, the authority of the Secretary of Housing and Urban Development to insure mortgages and loans under these programs will expire on September 30, 1985. After that date, the Secretary may not insure mortgages or loans under any of the major HUD-FHA insuring authorities contained in the National Housing Act, except pursuant to a commitment to insure issued before that date.

Extensions

Insuring authorities which will expire on September 30, 1985, and are proposed for extension through September 30, 1987, include those for the following HUD-FHA mortgage or loan insurance programs:

Title I -- property improvement and manufactured home loan insurance;

Section 203 -- basic home mortgage insurance;

Section 207 -- rental housing insurance;

Section 213 -- cooperative housing insurance;

Section 220 -- rehabilitation and neighborhood conservation housing insurance;

Section 221 -- housing for moderate-income and displaced families;

Section 223 -- miscellaneous housing insurance, including insurance in older, declining urban areas and for existing multifamily housing projects and hospitals;

Section 231 -- housing for the elderly;

Section 233 -- experimental housing;

Section 234 -- mortgage insurance for condominiums;

Section 237 -- special mortgage insurance assistance;

Section 240 -- homeowner purchases of fee simple title;

Section 241 -- supplemental loans for multifamily housing projects, health facilities and energy conserving improvements;

Section 243 -- homeownership for middle-income families;

Section 244(d) -- mortgage insurance on a coinsurance basis generally;

Section 244(h) -- mortgage insurance on a coinsurance basis for rental rehabilitation property;

Section 245 -- mortgage insurance on graduated payment and indexed mortgages;

Section 247 -- single family mortgage insurance on Hawaiian home lands;

Section 248 -- single family mortgage insurance on Indian reservations;

Section 251 -- adjustable rate single family mortgages;

Section 252 -- shared appreciation mortgages for single family housing;

Section 253 -- shared appreciation mortgages for multifamily housing; and

Title X -- mortgage insurance for land development.

The proposed extensions of the above listed mortgage insuring authorities are designed to guarantee the continued availability of FHA mortgage insurance and thus to maintain and enhance the Department's capacity to contribute to achieving the national housing goal of "a decent home and a suitable living environment for every American family."

Expirations

Extensions have not been included for a number of programs. Many of these programs are little used either because of diminished demand or because financing needs are being met in the private lending market. In order to avoid a clash between competing public and private credit demands and to better direct Federal credit programs to those areas of actual need, the following programs are not extended:

Section 222 -- mortgage insurance for servicemen;

Section 232 -- mortgage insurance for nursing homes, intermediate care facilities, and board and care homes;

Section 235(h) and (m) -- homeownership for lower income families;

Section 235(q) -- countercyclical economic stimulus;

Section 242 -- mortgage insurance for hospitals;

Title VIII -- armed services housing; and

Title XI -- group practice facilities.

The program of mortgage insurance for servicemen under section 222 would be permitted to expire on September 30, 1985. Military personnel, Coast Guard personnel, and employees of the National Oceanic and Atmospheric Administration certified as requiring housing by the Secretaries of Defense, Transportation and Commerce, respectively, are eligible under this program. However, since the Department of Defense no longer participates in the program, it is rarely used. In fiscal year 1984, only 40 homes were insured under the section 222 program.

The authority to insure mortgages for nursing homes, intermediate care facilities, and board and care facilities under section 232 would be permitted to expire on September 30, 1985. Many facilities currently in existence have been developed and financed without the benefit of federally insured mortgages. Section 232 has not been a high-volume mortgage insurance program, and there appears to be no reason to believe that the private market cannot meet the financing needs of such facilities in the absence of the section 232 program. In fiscal year 1984, only 37 mortgages were insured under the 232 program.

Authority to contract to make assistance payments under section 235(h) (homeownership for lower income families) will expire September 30, 1985. Authority to insure these mortgages under section 235(m) also expires September 30, 1985, except pursuant to previous commitments. No extension is requested for sections 235(h) and (m). In light of the budget deficit, this program should not be extended. To the extent housing assistance is provided, it should be made available to those most in need,

rather than to a narrow group of potential homebuyers. All supplemental appropriations for section 235 program provided in the Second Supplemental Appropriations Act, 1984 (Pub. L. 98-396, approved August 22, 1984), will be committed before the September 30, 1985 expiration date of the program.

The section 235(q) authority (countercyclical economic stimulus), scheduled to expire on September 30, 1985, is not proposed for extension. This emergency authority has never been activated.

The authority to insure mortgages for hospitals under section 242 is not proposed for extension beyond the current September 30, 1985 expiration date. The Administration's attempts to bring cost containment to the health and medical sector, plus the fact that many areas already have a surplus of hospital beds, suggest that only a very limited need exists for financing hospitals. Since the private market has provided financing to many existing hospitals and appears quite capable of meeting credit needs in those few cases where new hospital construction is appropriate, extension of section 242 is not being sought. Only five projects were insured under section 242 in fiscal year 1984.

The authority to insure armed services housing under Title VIII of the National Housing Act (sections 809 and 810) is not proposed for extension beyond the current September 30, 1985 expiration date. These programs have been inactive for several years. No applications for insurance under title VIII are currently pending.

Finally, there has been little activity under the Title XI authority to insure group practice facilities, suggesting that whatever need exists is being met adequately by the private market. Accordingly, no further extension of this authority is being sought.

MISCELLANEOUS AMENDMENTS

Section 302 would:

(1) Amend section 232(i)(2)(B) of the National Housing Act, which establishes authority to insure loans for the purchase and installation of fire safety equipment in nursing homes, intermediate care facilities and board and care homes, to permit the borrower and lender to negotiate the interest rate on the loan. Amending this section would establish consistency with section 232(d)(3)(B) and other provisions of the Act that provide for a negotiated interest rate. Section 404 of the Housing and Urban-Rural Recovery Act of 1983 deleted the Secretary's authority to set maximum interest rates on most of the other mortgage and loan insurance programs, but section 232(i)(2)(B) was inadvertently omitted.

(2) Amend sections 235(m) and (q) to clarify the expiration date of the programs covered by these subsections.

(3) Change an incorrect reference in section 236(i)(1) from subsection "(h)" to "(f)(4)."

(4) Change an incorrect capitalization of the word "Mortgager" in section 247(a)(2).

(5) Amend sections 248(a) and (d) of the Act, which are concerned with single family mortgage insurance on Indian lands, to use the defined term "trust or otherwise restricted land" consistently in section 248.

(6) Amend section 253(b) of the Act to base the definition of "net appreciated value" in the multifamily shared appreciation mortgage program on the actual project cost after completion, as

approved by the Secretary, rather than basing it on the speculative measures of estimated value or replacement cost. Using the actual cost would eliminate the possibility that the mortgagee, at the time of sale, would be entitled to share in residual receipts notes that had been executed by the mortgagor during construction. This amendment also should help to minimize cost increases because mortgagees would have an incentive to limit change orders, and thereby increase the amount of appreciation to be shared.

(7) Amend section 253(c) of the Act, which is concerned with insurance benefits in the event of default, to indicate that multifamily shared appreciation mortgages are obligations of the General Insurance Fund, rather than the Mutual Mortgage Insurance Fund.

(8) Amend section 809(f) to clarify the expiration date of the program covered by the section.

(9) Amend section 810(h) of the Act to conform with other provisions of the Act that provide for a negotiated interest rate. This amendment will have no substantive effect on the mortgage insurance program, but simply deletes the Secretary's authority to set a maximum interest rate. Section 810(k) is also amended to clarify the expiration date of section 810.

(10) Amend section 1101(a) to clarify the expiration date of section 1101.

(11) Change an incorrect reference in section 482 of the Housing and Urban-Rural Recovery Act of 1983 from "such Act" to "the National Housing Act".

**EXPANDED AUTHORITY FOR SETTING INSURANCE
PREMIUM CHARGES ON TITLE I LOANS**

Section 303 would amend section 2(f) of the National Housing Act to give the Secretary more flexible authority for setting insurance premium charges under the Title I property improvement and manufactured home loan programs.

Section 2(f) currently gives the Secretary authority to fix a premium charge under the Title I program based on a percentage of the net proceeds of the loan, not to exceed one percent per year, for the term of the loan. Under this authority, HUD collects premiums on Title I insurance in force at an annual rate of .50 percent of the net proceeds for property improvement loans and .54 percent of the net proceeds for manufactured home loans. Because of the statutory language, the lender must pay the same premium charge for each year that insurance on the loan is in force.

Experience under the Title I program indicates that the highest probability of a claim occurs within the first three years after the loan is reported for insurance, with the claims rate dropping sharply about five years into the loan term. Thus, deficits are much higher during the early years of any annual group of loans, with the losses being recouped to some extent during the later years by the premium charges on those loans that run for the full term. In recent years, fluctuations in the amount of insurance written under the Title I program have resulted in annual deficits based on a comparison of premium

income with the amount of claims paid. While the Secretary could increase the premium charge for all new loans in order to offset these annual deficits, this would not resolve the inequities of the present system.

The Secretary needs authority to be able to collect a higher premium charge during the early years of the loan when the risk is greatest. The amendment would give HUD the flexibility (1) to charge a percentage of the outstanding loan balance during the year (as is authorized under Title II); (2) to charge a level premium for a fixed number of years, but for some period less than the full term of the loan; (3) to charge a declining percentage of the net proceeds; or (4) some combination of these. Whatever the basis adopted by regulation, the premium would continue to be collected in advance and would continue to be subject to an aggregate limit equivalent to one percent per year of the net proceeds for the term of the loan.

**MORTGAGES ON HAWAIIAN HOME LANDS AND
INDIAN LANDS TO BE OBLIGATIONS OF THE
GENERAL INSURANCE FUND**

Section 304 would amend sections 247 and 248 of the National Housing Act to provide that mortgages insured pursuant to either section would be obligations of the General Insurance Fund. Currently, any mortgage insured pursuant to either section would be an obligation of the fund applicable to the specific section of the Act under which the mortgage is insured. Since most of these mortgages are expected to be insured under section 203(b), they would be obligations of the Mutual Mortgage Insurance Fund (MMIF).

Hawaiians

In attempting to implement section 247 of the National Housing Act, the Department discovered that the Hawaiian Homelands Commission (HHC) Act (part of the Hawaii Constitution) contained specific rules which control every aspect of land ownership and financing. It is in part due to these restrictions that there is currently no private lending activity for home acquisition on Hawaiian Homelands. The Department conducted negotiations with the HHC to see what program could be implemented which would require the fewest revisions to both their Constitution and HUD's statute. The resulting program now being designed provides that the HHC will receive virtually all of the mortgage insurance premium (MIP) and assume all the risk of loss. A small portion of the MIP would be retained by the Department to cover costs of reviewing creditworthiness and other

processing costs. While different in outline from other FHA programs, including Indians, both the Department and the Hawaiian Homeland Commission have agreed that this program design is viable.

Since the HHC under this negotiated program design retains virtually all of the MIP and assumes all of the risk, it should not have to make the distributions the Secretary is authorized to make under the MMIF to the mortgagor upon termination of the insurance obligation where national claim experience for a particular class of mortgages is better than predicted. Making these mortgages obligations of the General Insurance Fund also would not increase potential appropriation requests since the HHC would be reimbursing HUD almost immediately for any losses.

Indians

Mortgages for homes on Indian lands are likely to involve greater risks than other mortgages under the MMIF, due to the unique nature of the ownership of these lands and the restrictions which are imposed on their sale or lease. The extent of these risks was recognized by the Congress in providing for up to a three percent mortgage insurance premium under the Indian program, and in its reimbursement and security features. While these provisions are intended to prevent losses to the MMIF, it is questionable whether they will be sufficient. Therefore, in order to avoid any possibility of jeopardizing the solvency of the MMIF, mortgages under section 248 should be made obligations of the General Insurance Fund.

**REPEAL OF REQUIREMENT TO PUBLISH PROTOTYPE HOUSING COSTS
FOR ONE- TO FOUR-FAMILY UNITS**

Section 305 would repeal section 904 of the Housing and Community Development Amendments of 1977, which requires HUD to prepare and publish annually prototype housing costs for one- to four-family dwelling units for each of the approximately 650 housing market areas in the United States. Publication of prototype costs under section 904 is expensive and unnecessary. The legislative history of this provision gives no specific reason for the requirement to publish this information other than for "public" information. These cost figures are not used for operating any HUD program. Neither the general public nor any public agency or private entity has expressed the view that the information is useful. The main area of comment has been from mortgagees, builders and developers challenging the accuracy of the figures.

**AUTHORITY FOR INCREASED MORTGAGE LIMITS FOR
MULTIFAMILY PROJECTS IN HIGH-COST AREAS**

Section 306 would amend sections 207(e)(3), 213(b)(2), 220(d)(3)(B)(iii), 221(d)(3)(ii), 221(d)(4)(ii), 231(e)(2) and 234(e)(3) of the National Housing Act to increase the maximum high-cost area adjustment factor from 75 percent to 110 percent of the basic mortgage limits for dwelling units of various sizes and types (90 percent in the case of Tandem projects). The Secretary's authority to approve higher limits on a project-by-project basis up to 140 percent of the maximum dollar limits (90 percent for Tandem projects) would not be changed.

Each of these sections of the Act provides the Secretary with discretionary authority to increase the maximum dollar amounts on insured mortgages by not more than 75 percent in any geographical area where the Secretary finds that cost levels require such an increase. In addition, where the Secretary determines that it is necessary, the maximum dollar amounts may be increased on a project-by-project basis by not more than 140 percent, or 90 percent for Tandem projects under section 305 of the NHA. (Section 305 was repealed by section 483 of the Housing and Urban-Rural Recovery Act of 1983, but a number of projects remain in the pipeline.) The Secretary's exception authority for individual projects was increased from 90 to 140 percent by the Further Continuing Appropriations Act, 1983 (P.L. 97-377), enacted December 21, 1982. However, no commensurate change was made to the 75 percent high-cost area limitation.

In implementing these provisions, HUD periodically reviews local construction cost levels and establishes a percentage increase for each high-cost area, within which the field office may approve multifamily projects without Headquarters review. However, in areas where cost levels exceed the 75 percent limitation, nearly all multifamily projects must be referred to Headquarters for a project-by-project determination. Headquarters review does not presently cause excessive delays, but greater delays may occur in the future as more areas bump up against the 75 percent high-cost area limitation. At present, there are 19 metropolitan areas which are at the 75 percent limitation for all multifamily buildings, and another 7 metropolitan areas which are at the 75 percent limitation for elevator buildings. Cost levels in many of these areas could justify increasing the area limit above the current 75 percent high-cost area limitation. An increase in the high-cost area limitation from 75 to 110 percent would streamline FHA processing by permitting HUD field offices to review and approve higher cost projects within the maximum limits set by Headquarters, without the need for Secretarial oversight of individual projects or an increase in the basic dollar limits.

In light of the subsidy levels which Tandem projects enjoy and the higher subsidy costs which would result from larger Tandem mortgages, the special 90 percent limit would continue to apply to the small number of projects remaining in the Tandem pipeline.

**DOUBLE DAMAGES REMEDY FOR UNAUTHORIZED USE OF
MULTIFAMILY HOUSING PROJECT ASSETS AND INCOME**

Section 307 would expand the ability of the Secretary to deter the use of the assets and income of multifamily housing projects under the National Housing Act in violation of the project's regulatory agreement or applicable regulations by enacting a double damages civil recovery statute. Currently, the only civil remedy available to recover project assets and income that are used in violation of these requirements is a suit for civil recovery. In addition, section 239(b) of the National Housing Act provides a criminal penalty of a \$5,000 fine or a prison term of up to three years in jail, or both, for unauthorized use of project rents or other funds.

Congress added section 239 to the National Housing Act in 1968 because civil actions for recovery were viewed as ineffective as a means of discouraging misuse of project rents or other funds. Therefore, Congress established a criminal punishment of a fine or imprisonment, or both. However, this criminal statute has not been as effective a deterrent as was hoped, and is not broad enough to cover all project assets. In addition, HUD recognizes that not all wrongful conduct warrants the severity of a criminal fine and imprisonment and, in certain cases, civil relief is more appropriate. However, HUD's present civil remedy of recovering the amount of the project assets and income used is an insufficient deterrent. The only risk for such an owner is to pay back those amounts, plus interest.

The civil double damages remedy would be enforceable against project owners violating the project regulatory agreement's

prohibition against unauthorized use of project assets or income for non-project-related or otherwise unapproved uses.

Paragraph 6 of the Department's standard form of regulatory agreement for multifamily projects with mortgages insured under the National Housing Act does not permit the unauthorized use of project assets or income.

Under the regulatory agreements, all books and accounts relating to the operation of the mortgaged property and the project must be kept in accordance with the requirements of the Secretary and in reasonable condition for proper audit. The statute would provide that use of assets or income without adequate documentation would constitute a prima facie case that the assets and income were used in violation of the regulatory agreement. The statute reaffirms the mortgagor's obligation to maintain books and records in accordance with the requirements of the Secretary and in reasonable condition for proper audit. Where the books and records do not establish that the use was made for a reasonable operating expense or necessary repair, the statute confirms HUD's right to recover damages for such an unauthorized use. For fiscal years 1980 through 1984, the Office of Inspector General disallowed \$17.3 million in costs charged to project accounts and questioned \$17.5 million in costs charged to project accounts. The Office of Inspector General questions a cost when there is insufficient documentation relating to that cost. During this time period, the Department only recovered 8 percent of questioned costs. The Secretary's ability to recover these questioned costs would be greatly improved if improper use

of project assets and income could not be hidden behind inadequate recordkeeping. Inadequate books and records provide a mechanism for owners who use project assets and income without authorization to argue that a "questioned cost" is not a proveable unauthorized use. This escape hatch exists at great cost to taxpayers and is a material frustration for HUD in its attempts to ensure compliance with the regulatory agreement.

The statute also would provide that the Secretary, at the Secretary's discretion, could apply recovered funds to the project accounts or to the applicable insurance fund, or deposit them in the Treasury of the United States. Recoveries now go to the Treasury in most cases, which precludes the Department from minimizing the actual damage caused. In addition, the statute would provide that the Attorney General could bring an action under this authority at any time up to six years after the latest date the Secretary discovered any use of assets or income in violation of applicable requirements. This would give the Department the time needed to discover the extent of use of assets and income in violation of the regulatory agreement before tolling of the statute. Finally, the statute would give the Attorney General, upon request of the Secretary, sole right to initiate proceedings, thus preventing third-party and mandamus suits.

This double damage approach is consistent with other enforcement statutes that provide civil, multiple damages as well as criminal remedies, such as the Sherman Antitrust Act treble

damages action; patent treble damages actions; double damages and a \$2,000 forfeiture under the False Claims Act; and the recently enacted Securities and Exchange Commission's treble damage remedy for insider trading.

PART B -- OTHER PROGRAMS**RESEARCH AUTHORIZATION**

Section 311 would authorize the appropriation of \$18,900,000 in fiscal year 1986 and necessary sums for fiscal year 1987 for the Department's research and technology program. Particular areas which the Department's research program will focus on include:

- identification of stable sources of housing finance, with particular emphasis on secondary market activities, and analysis of the effects of various Federal, State, and local initiatives on the continuing availability of these sources;
- demonstrations to improve the quality of life in public housing and the urban environment in which public housing residents live, with special emphasis on single parent households;
- evaluation of the approaches to providing housing assistance authorized under the Housing and Urban-Rural Recovery Act of 1983, including Vouchers and Rental Rehabilitation;
- activities to increase the efficiency and effectiveness of current assisted and Public Housing programs;

- identification of new building technology and regulatory strategies to help make housing more affordable; and
- analysis of current Departmental activities to promote voluntary compliance on fair housing and prevent discrimination, and identification of new strategies to promote fair and non-discriminatory housing.

Inclusion of the \$16.9 million funding authorization for fiscal year 1985 is a technical amendment to reflect the amount which was in fact appropriated for research and technology for fiscal year 1985.

FAIR HOUSING INITIATIVES PROGRAM

As part of its effort to enforce Title VIII and further fair housing, HUD, through its Fair Housing Assistance Program (FHAP), has provided funding for a variety of fair housing activities to Community Housing Resource Boards (CHRBs), which provide monitoring and implementation assistance to local housing industry groups that have signed voluntary affirmative marketing agreements (VAMAs) with HUD (see 24 CFR Part 120), and to State and local fair housing agencies administering fair housing laws that provide rights and remedies that are substantially equivalent to those provided under Title VIII (see 24 CFR Part 111). To strengthen this effort, section 312 would establish a Fair Housing Initiatives Program (FHIP). This new program would provide the means to assist projects and activities designed to enhance compliance with Title VIII and substantially equivalent State or local laws.

Subsection (a) would authorize the Secretary to make grants to, or to enter into contracts or cooperative agreements with, State or local governments or their agencies, public or private nonprofit organizations or institutions, or other public or private entities that are formulating or carrying out programs to prevent or eliminate discriminatory housing practices. HUD contemplates providing funding for three distinct categories under FHIP:

The Administrative Enforcement Initiative

The Private Enforcement Initiative

The Education and Outreach Initiative

These initiatives will be administered by the Assistant Secretary for Fair Housing and Equal Opportunity.

Under the Administrative Enforcement Initiative, the Secretary would provide funding to substantially equivalent State and local fair housing agencies in support of initiatives designed to broaden the range of enforcement and compliance activities that they conduct. (Substantially equivalent agencies eligible for funding under this program would include State or local agencies that have entered into agreements with HUD permitting the interim referral of complaints under 24 CFR 115.11.) The types of projects that could be funded include: (a) providing assistance concerning applicable fair housing laws and regulations to State and local governments administering housing and community development programs; (b) developing fair housing testing capacities for State and local agencies; and (c) conducting investigations of systemic discrimination for further processing by State or local agencies, HUD, or the Department of Justice.

This assistance would replace the existing Type II-Competitive Funding assistance currently provided under FHAP (24 CFR 111.103), except education and outreach funding which would be replaced by the Education and Outreach Initiative described below. The Type I - Noncompetitive Funding component of FHAP (24 CFR 111.102), which provides assistance to substantially equivalent State and local agencies for the processing of complaints alleging discriminatory practices referred to them under Title VIII, would continue to be funded through FHAP.

Currently, the Secretary has no authority to fund directly non-governmental efforts to enforce or ensure compliance with fair housing laws. The Private Enforcement Initiative would permit the Secretary to provide funding assistance to nonprofit organizations or other public or private entities that are formulating or carrying out programs to prevent or eliminate discriminatory housing practices (for example, private fair housing organizations and civil rights groups). Types of projects to be funded include: (a) professionally conducted testing or other investigative support for administrative and judicial enforcement; (b) standardizing and refining fair housing testing and other investigative techniques; (c) linking fair housing organizations regionally to address broader market discriminatory practices; and (d) establishing effective means of meeting legal expenses related to the litigation of fair housing cases. (Consistent with existing administrative requirements governing the use of Federal assistance, the funding of litigation against the Federal government under FHIP would not be permitted.)

The Education and Outreach Initiative would provide assistance to State or local governments or their agencies, public or private nonprofit organizations or institutions, or other public or private entities that are formulating or carrying out programs to prevent or eliminate discriminatory housing practices to develop, implement, carry out, or coordinate education and outreach programs designed to inform the public concerning their rights and obligations under Title VIII and

substantially equivalent State and local laws. Currently, HUD is authorized to support outreach and education programs provided by State and local fair housing agencies under FHAP Type II - Competitive Funding, and by CHRBS. This initiative would permit the consolidation of the existing education and outreach programs and would expand these efforts by making assistance available to a broader universe of eligible parties.

The CHRBS funding set-aside under FHAP would be reduced to reflect the transfer of the education and outreach aspect of CHRBS to FHIP. CHRBS' activities with local real estate industry groups in connection with VAMAs would continue to be funded under FHAP. CHRBS would also be eligible to receive funding under the Education and Outreach Initiative and for activities that are supportive of the goals of the New Horizons program. New Horizons is a national program to assist States and local governments in planning and executing comprehensive, community-wide approaches to fair housing.

Education and Outreach Initiative assistance would encourage the development of nationally, regionally, and locally based media campaigns (written and audio-visual materials) and other special efforts to educate the general public and housing industry groups about fair housing rights and obligations. The types of educational projects that could be funded include those aimed at: (a) developing informative material on fair housing rights and responsibilities; (b) developing fair housing and affirmative marketing instructional material and educating national, regional, and local housing industry groups; (c)

providing educational seminars and working sessions for churches, community-based civic organizations, and other groups; and (d) developing educational material targeted at persons in need of specific or additional information on their fair housing rights.

The types of outreach projects that could be funded include: (a) developing advertising programs through the use of various forms of media; (b) bringing housing industry and civic or fair housing groups together to identify illegal real estate practices, and to determine how to correct them; (c) designing innovative outreach projects to inform all persons of the availability of housing opportunities; (d) developing and implementing a response to new trends and sophisticated practices that result in discriminatory housing practices; and (e) developing mechanisms for the identification of, and quick response to, housing discrimination cases involving the threat of physical harm.

Subsection (b) would authorize the appropriation for the new program of not to exceed \$10,000,000 for each of fiscal years 1986 and 1987. Appropriated amounts would be available for necessary expenses of the Secretary in carrying out the purposes of the program, including costs for promotion and marketing, training and technical assistance, and evaluation.

**REPEAL OF LEGISLATIVE REVIEW REQUIREMENTS
APPLICABLE TO HUD REGULATIONS**

Section 313 would repeal section 7(o) of the Department of Housing and Urban Development Act, the 1978 addition to the Department's organizational statute that provides for House and Senate Banking Committee review of HUD regulations.

Under section 7(o), HUD is required twice annually to submit to the Committee on Banking, Housing and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives an agenda of all regulations under development or review by the Department. During a period of 15 congressional session days following an agenda submission, the Department may not publish for comment any regulation on the agenda. If either Banking Committee, in response to the agenda submission, requests review of particular listed regulations that are to be published for comment, each requested regulation must be submitted to both Committees -- before its publication -- for a period of 15 session days.

In addition, all HUD rules published for effect must have their effectiveness delayed for a period of 30 session days following the date of publication. If, during that period, either Committee reports out, or is discharged from further consideration of, a joint resolution of disapproval or other legislation intended to modify or invalidate the regulation, section 7(o) requires that the regulation's effectiveness be delayed for an additional period of 90 calendar days from the date of the Committee's action. The 15- and 30-day clocks must begin anew if interrupted by an adjournment of Congress sine die,

and the count of session days stops during any recess of either House of more than three days.

The Department is seeking repeal of section 7(o) because in several respects it calls for the unconstitutional exercise of legislative power by a single congressional committee. Even beyond the Constitutional issues, this section should be repealed because in practice the legislative review process has been seriously disruptive of the Department's efforts to implement newly enacted statutory authorities and other policy initiatives without providing compensating benefit to the Committees. Both the 15-day and 30-day waiting periods have caused lengthy delays, especially during recesses and adjournments, even while the Committees have actually exercised their statutory (but unconstitutional) prerogative to review proposed rules before publication on few occasions during the six-year history of the requirement.

Unconstitutionality of Section 7(o)

Several pivotal features of section 7(o) are clearly beyond congressional authority under INS v. Chadha, U.S. , 77 L.ED 2nd 317 (1983). The requirement in section 7(o)(2)(A) that a single Committee of the Congress may cause a delay in publication of a proposed rule, simply by notifying the Secretary, clearly has the purpose and effect of "altering the legal rights, duties, and relations of persons, including Executive officials . . . , outside the legislative branch" Under Chadha, when an action of the Congress has such an effect, and

the action taken is other than by passage of a law by both Houses with presentment to the President, the action is beyond the power of the Legislative Branch and is unconstitutional.

For the same reasons, the section 7(o)(3) provision calling for 90 days' delayed effectiveness of a final regulation, based on a single Committee's resolution of disapproval, must fall under the Chadha rationale.

Finally, the 7(o) process allowing HUD to seek waivers of the statutory waiting periods is constitutionally unsound. Under the statute, a waiver of the 15- and 30-day waiting periods can be secured with the approval of the Chairmen and Ranking Minority members of the two Committees. This waiver-granting process also is clearly an invalid exercise of legislative power, and HUD has refrained from requesting any waiver of section 7(o) waiting periods since the announcement of the Supreme Court's opinion in Chadha almost two years ago.

It is clear, then, that the provision in section 7(o) that particular rules selected by a Committee from an agenda not be published for comment pending review by both Committees is invalid. The requirement that the Department honor any resolution of disapproval action taken by either Committee, purporting to delay the effectiveness of a rule for an additional 90 days is invalid. Finally, the Department cannot avail itself of the waiver procedures provided in section 7(o)(4), because that process also is constitutionally defective.

The unconstitutional portions of section 7(o) are the law's principal components -- the system for requesting prepublication

review and the delay procedure triggered by Committee resolutions against final rules published for effect. Absent the validity of these two components, there is no point to any of the other components of the scheme. The appropriate course is for the Congress to repeal section 7(e) and look to more traditional forms of legislative oversight to assist the Committees in influencing HUD policymaking.

Committee Exercise of Legislative Review

Through January 1985, HUD has made 11 agenda submissions to the Banking Committees since the adoption of section 7(e). Between 1979 and 1981, each Banking Committee requested review of certain submitted HUD rules on the occasion of each HUD agenda submission. However, the last agenda submission to the House Banking Committee that prompted a committee response requesting review of rules was made in September 1982. The Senate Committee has requested review of certain HUD rules only once (in May 1984), the first request received from that Committee since August 1981. Each Committee, then, has made only one request for review of rules out of the five most recent agenda submissions. No regulations were requested by either Committee during 1983, nor in response to the most recent submission in January 1985.

Delay and Disruption of HUD's Regulatory Program

Since under section 7(o), the publication of rules requested from an agenda -- or, more significantly in view of the record of requests described above, rules not listed on an agenda -- and the effectiveness of all rules requires the passing of Congressional session days, the Department's regulatory program is closely linked to the Congressional schedule. This linkage causes enormous delays in the rule making process and distorts regulatory priorities. This past year's experience graphically illustrates both of these problems. In 1984, because of mid-session recesses, HUD was unable to plan its regulations production on the basis of a project's relative importance, but instead planned on the basis of what type of rule was being developed. For example, in July and August 1984, it was necessary for the Department to focus its drafting and reviewing resources almost entirely on rules being published for effect. These rules took precedence (without regard to their relative importance) over all other regulations projects because if they were not published by August 9, 1984, they could not take effect until March 1985. August 9 was the key day because only 30 session days remained between then and the scheduled October 1 adjournment. After August 9, it was useless to publish a final rule -- it could not take effect until March 1985, no matter when in 1984 it was published. (This is because, as noted above, the 30 session days required by section 7(o) must begin all over again after an adjournment sine die.) It was also unavailing for HUD to work any time after mid-September 1984 on proposed rules that had

been requested for prepublication review or that had not been listed on an agenda: their 15-day prepublication review period, if not secured by the 1984 adjournment date, could not be completed until early February.

It is apparent that HUD cannot produce regulations on a timetable keyed to the relative importance of particular policy initiatives and cannot pursue its regulatory goals with dispatch, or include a full 12-month year in its regulatory scheduling, so long as it is bound to the extraneous considerations that section 7(o) introduces into its planning processes.

The number of occasions that either Banking Committee has communicated concern about a proposed or final rule based on the section 7(o) review process is extremely small. Nevertheless, while legislative review has not been an effective means of reviewing and affecting HUD policy on the merits, it has been a success as a mechanism for delaying all rules. The delays remain whether the Committees actively participate in the review process or not.

Even without section 7(o) the Department will of course be responsive to the concerns of members of Congress. The restraints in section 7(o) are not necessary in order to permit the Congress to take action against unpopular rules. On a few occasions when Committee members have expressed concern about proposed HUD rules, it has generally been after publication and public response, not before. Moreover, it also is clear that Congress can address its concerns through proper and constitutional legislative action. Indeed, precisely this

procedure was used with respect to the only HUD rule invalidated by law after enactment of section 7(o): a rule covering HUD thermal requirements for minimum property standards, as applied to masonry construction (section 322 of the Housing Community Development Amendments of 1979).

But under section 7(o) even active Congressional opposition to a HUD regulation is not necessary to thwart HUD's rulemaking program. It is enough for either House of the Congress merely to adjourn. In October 1982, the Congress unexpectedly recessed one week ahead of its published schedule. The result was that five HUD rules that has already been published with specific effective dates had to be corrected to postpone their effectiveness from October until December 1982. There is no evidence that either Banking Committee objected to any of these rules -- they were merely victims of the ponderous section 7(o) process.

Section 334(b) contains a conforming amendment to delete a reference to section 7(o) contained in the Solar Energy and Energy Conservation Bank Act.

MANUFACTURED HOMES FEES

Section 314 would amend the National Manufactured Housing Construction and Safety Standards Act of 1974 ("Title VI") to expand the purposes for which HUD may collect and use fees. Under the proposal, fees could cover HUD's costs (including costs of contractors and State agencies) of carrying out all its responsibilities under Title VI. Existing section 620 limits the collection and use of fees to carrying out Title VI inspections.

Currently, a fee of \$19 per manufactured housing unit is collected in connection with inspection of the unit for compliance with safety standards that HUD has developed under Title VI. In calendar year 1985, HUD intends to issue a regulation containing a revised fee schedule. The proposed fee will be \$16 per module -- for example, \$16 per single-wide and \$32 per double-wide.

The proposed amendment reflects Administration policy to make programs providing particular services to the public self-supporting. Accordingly, HUD would use the fee collections to support the Title VI program as a whole, and not merely the inspection function alone. The functions performed under Title VI include research and development; collection of construction and safety data; and promulgation of standards for the construction, design and performance of manufactured homes to address the safety, quality, and durability needs of consumers; and implementation and enforcement of these standards, including inspections. At the revised fee level noted above, fee

collections are expected to be nearly adequate to cover the expanded purposes for which the collections would be used. The fees may be adjusted from time to time, however, to achieve the goal of self-sufficiency for the program. Initially, any shortfall of collections as compared to costs would be funded by amounts collected from fees in prior years, and estimated to be available in fiscal year 1986. For fiscal year 1986 (the first full year for which the expanded authority would take effect), based on a projection of 372,000 modules to be manufactured and assuming that the revised fee schedule is in effect, collections are estimated at \$5,952,000. The costs of activities under Title VI are estimated to be \$6,807,000 for that year. This figure includes HUD's staff and related costs, research conducted under contracts (but not research conducted by HUD's Office of Policy Development and Research), and implementation and enforcement activities, including inspections.

The proposal would not reenact the exception under which HUD's fee imposition authority does not apply in States having HUD-approved plans for State enforcement of the manufactured home standards. The exception should not be reenacted for a number of reasons. All manufacturers and home purchasers benefit equally from the Federal standards, without regard to the State in which production of the unit or its use occurs. Similarly, the fees that have supported the inspection system, and would support all Title VI activities under the proposal, are in fact uniform nationwide and should be borne by all manufacturers of housing units, notwithstanding the State in which the plant or factory is located.

Under the current fee system, HUD and participating States share portions of the fees collected in the State. Fees have been charged to manufacturers in participating States, under State rather than HUD authority, and deleting the exception from section 620 would, as a practical matter, merely shift the authority for imposing fees in participating States to HUD. Deleting the exception would have no substantive effect, but would simplify the statute, and to some extent the administration of this aspect of the program.

DELETION OF MAXIMUM FEE FOR INTERSTATE LAND SALES REGISTRATION

Section 315 would amend section 1405(b) of the Interstate Land Sales Full Disclosure Act to delete the \$1,000 maximum on the amounts of the fees that the Secretary collects for services rendered under that Act. The amendment would instead require a reasonable fee, without statutory specification of the maximum.

HUD has collected a fee from developers for registration of subdivisions since the OILSR program started, and a revised fee schedule was published in the Federal Register on August 6, 1984 (49 FR 31366).

The revised fee schedule, as well as the proposed amendment to section 1405(b), reflect Administration policy to make programs providing particular services to the public self-supporting. HUD has no plans to make any major further revisions in the fee schedule, even if the maximum amount is deleted, since collections based on the revised fee schedule are expected to be nearly adequate to cover costs of the Interstate Land Sales Registration program. In this regard, on the basis of an average of program activity for fiscal years 1982 through 1984, fee collections would have been \$972,000 per fiscal year under the revised August 1984 fee schedule. Under this revised fee schedule, collections of \$1.2 million are projected for fiscal year 1985, as compared with projected expenses for program operations of \$1.3 million for the same period.

While the amounts and purposes of the foregoing fees now nearly cover the program's costs, some minor revisions may be needed in the future to close the gap between the amounts of collections and these costs. Whenever such minor revisions may be undertaken, HUD believes that the process can be better disciplined if the statute does not prevent a fee in excess of \$1,000. Accordingly, deletion of the \$1,000 maximum on fee amounts is proposed now, even though that ceiling is not expected to be exceeded in the foreseeable future.

If in the future it appears desirable under the foregoing Administration policy to revise the fee schedule once again, those fees currently below \$1,000 on the schedule might well remain below this current maximum, since as shown below, there may be ample opportunities to adjust the fees without disturbing the \$1,000 maximum for filing statements of record for large subdivisions.

Currently, the fee schedule provides for payment of \$800 for filing a statement of record to register subdivisions of 200 or fewer lots, and \$1,000 for subdivision of 201 or more lots. In this connection, the fixed cost component of the program's total costs related to registrations is relatively constant, notwithstanding the size of the subdivision. Variable costs, however, related mostly to enforcement, are estimated to be somewhat higher for the larger subdivisions. The difference between the fees for larger and smaller subdivisions reflects the foregoing situation. The current fee schedule also includes charges of \$500 for an advisory opinion or an exemption order;

\$800 to keep an existing statement of record valid when 101 or more lots are unsold at the end of any year; and \$800 to reactivate a suspended statement of record unless there are 100 or fewer lots covered by the statement of record.

TECHNICAL AMENDMENTS TO THE SOLAR ENERGY
AND ENERGY CONSERVATION BANK ACT

Section 316(a) would amend section 520(b)(4)(A) of the Solar Energy and Energy Conservation Bank Act to reduce the limitation on the use of funds for administrative expenses from 12 to 10 percent. The 12 percent figure (added by section 463(e) of the Housing and Urban-Rural Recovery Act of 1983) appears to be an error caused by adding the intended 10 percent set forth in earlier versions of the 1983 Act (H.R. 1, as passed by House) to the 2 percent limitation in HUD's interim rule. This corrective amendment would not affect the Secretary's existing discretionary authority to permit a higher percentage of the funds to be used for administrative expenses.

Subsection (b) would amend sections 506, 509 and 515 of the Act to correct a number of obsolete references to the Internal Revenue Code's residential energy tax credit section. Section 471 of the Deficit Reduction Act of 1984 changed the citation to that section of the Code from section 44C to section 23.

TITLE IV -- RENTAL REHABILITATION AND DEVELOPMENT GRANTS

Section 401 would amend section 17 of the U. S. Housing Act of 1937 to repeal the Housing Development Grant program and to make a number of changes to the Rental Rehabilitation Grant program. Repeal of the Housing Development Grant program would further the Administration's objective of reducing the Budget deficit by cutting Federal outlays. The repeal is contained in subsection (g), with conforming changes in subsections (a), (b), (d), (e), and (h) - (k). Subsection (l) would terminate the Secretary's authority to make housing development grants on or after the effective date of section 401 (the later of October 1, 1985 or the date of enactment), except pursuant to a reservation of funds made by the Secretary of HUD before the effective date. Under 24 CFR 850.31(e), a reservation of funds occurs when HUD notifies an applicant that its project has been selected and that a certain grant amount has been set aside for it. Subsection (l) would also provide that housing development grants would be governed in the future by section 17's provisions as they existed before repeal, and that any amounts that, in the absence of the repealer, would have been available for reservation for development grants on or after the effective date would be rescinded.

As part of its deficit reduction efforts, the Administration is also proposing a two-year moratorium on new funding authorizations for the Rental Rehabilitation program. Thus, no authorization for appropriation is proposed for fiscal years 1986

and 1987. Sections 401 and 402(a) do contain, however, several substantive changes to the program.

Section (401)(h) would permit States to use rental rehabilitation grant amounts in rural areas -- areas eligible for assistance under Title V of the Housing Act of 1949. Section 17(e)(1) of the 1937 Act currently prohibits use of these amounts in areas that are eligible for assistance under Title V.

Compared with the Community Development Block Grant (CDBG) program, the areas in which States may carry out rental rehabilitation activities is significantly limited. As under the CDBG program, States may not operate in localities receiving direct formula allocations, but unlike the CDBG program, they are also prohibited from working in areas that are eligible for Farmers Home Administration assistance under Title V. The prohibition is very unpopular among States and the smaller CDBG recipients that are excluded from the Rental Rehabilitation program. As a result of the exclusion, even many communities participating in the Rental Rehabilitation Demonstration, using CDBG funds, may not participate in the Rental Rehabilitation program. From a programmatic standpoint, the intended close link between the Rental Rehabilitation and CDBG programs would be furthered by allowing rental rehabilitation eligibility for all small communities eligible for funding under the CDBG State's program.

In addition, like the proposal discussed above to provide additional funding for CDBG nonentitlement areas, this proposal would compensate for the discontinuation of the program

administered by the Farmers Home Administration that is somewhat analogous to the Rental Rehabilitation program -- the Rural Housing Preservation program, contained in section 533 of Title V of the Housing Act of 1949.

Section 401(c) contains a conforming amendment to remove the exclusion of data for rural areas from the rental rehabilitation grant distribution formula. This change would assure that the areas in which activities may be carried out and from which formula data are drawn would be the same.

Section 401(f) would make a number of changes to sections 17(c)(2) and (f) of the 1937 Act to refer to the property upon which assisted rehabilitation is performed as a "project" rather than a "structure." This is a technical change to make the terminology consistent throughout the Rental Rehabilitation program and to reflect the fact that the term "structure" is too limited, since assisted activities may include undertakings outside the "four walls" of the building itself and may involve more than one building under a single grant.

Section 402(a) would permit States that are Rental Rehabilitation grantees to approve local environmental certifications and release funds to localities, where the States distribute grant amounts to the localities. States already perform these responsibilities under the State's program under the CDBG authority. Under the present Rental Rehabilitation statute, HUD must perform these responsibilities with respect to localities receiving Rental Rehabilitation funds from a State.

Section 17(i)(2) of the 1937 Act generally extends to grantees under the Rental Rehabilitation program the authority to assume the Secretary of HUD's environmental review functions, through section 104(f) of the Housing and Community Development Act of 1974. Under both the CDBG and Rental Rehabilitation programs, the Secretary may approve the release of funds for particular projects only if recipients submit a certification indicating compliance with the National Environmental Policy Act of 1969 and related authorities, give public notice of their intent to request the release of funds, and submit the request to HUD. When the amendments authorizing the State's program in the CDBG program were added, section 104(f)(4) was also added to require the States receiving State's program funds under section 106(d) of that Act to perform the Secretary's duties of reviewing environmental certifications and releasing funds. Had this additional change not been made, the authority under section 104(f) would not have been sufficiently broad to permit States to perform these duties of the Secretary, and States would have had considerably less discretion and responsibility in administering the State's program.

When section 17 was added to the 1937 Act, section 17(i)(2) made the Secretary's award and grantees' use of resources generally subject to section 104(f). However, a particular reference to grants distributed to localities through the States, under section 17(e)(1)(B), parallel to the particular provision for State's program grants, was omitted. The proposal would remedy this omission, so that the State role in the environmental

review processes of localities receiving rental rehabilitation grants through the States would be equivalent to the State role for CDBG grants through States to recipient localities.

Without the proposed amendment, States must pass on for HUD approval requests for the release of funds which communities participating under the State Rental Rehabilitation program are required to submit. As indicated, States already perform the Secretary's approval functions under section 104(f) for the State's program, and can readily perform the same role with respect to the State program under section 17. Having equivalent processes is essential to the efficient administration of these Rental Rehabilitation program projects. The amendment, which is in keeping with the thrusts of both section 17 and section 104(f), would avoid the cumbersome process that is otherwise required.

Sections 402(b)-(d) would make conforming changes to the 1974 Act, and delete as unnecessary the provision in section 107(d) of the 1974 Act regarding certifications of compliance with Title VI of the Civil Rights Act of 1964 and Title VIII of the Civil Rights Act of 1968. Section 403 would make technical, conforming changes to sections 223(f) and 244 of the National Housing Act.

Chairman GONZALEZ. One of my dear friends, Mr. McKinney, seemed to be privy to some great struggle you have been involved in. I couldn't spot any scars.

After hearing your statement, I just don't know what manner of struggle you waged against Reaganmortis, but I think about all you can do is jest about the scars that never felt the wound.

You know, I was going to ask questions, Mr. Secretary, but your statement is so outrageous that it would have to entail something like the Geneva Arms Reduction Talks where we would have to have interpreters on language and the use of language and the distortion of facts, and argumentation based on very, very different views from what we hear from witnesses out in the real world involved in assisted housing programs, public housing, and other Federal efforts. I just am going to ask unanimous consent to submit my questions in writing because obviously I just react too emotionally to such an egregiously outrageous statement you have dared present us.

You're not on the "MacNeil-Lehrer Newshour," show, Mr. Secretary. You're before the subcommittee that is charged with the very responsible job of trying to maintain a national housing policy for this country. And I just am not going to go into all of the outrageously misstated—

Secretary PIERCE. Mr. Chairman, I totally disagree with that and I hope we educate you.

Chairman GONZALEZ. Well, I appreciate that, but I could not entertain any hope of educating you.

I recognize at this point Mr. McKinney.

Mr. McKINNEY. Mr. Secretary, I certainly do applaud your desire to get rid of section 8—what I have called since its inception the Builders Relief Program. I would remind the audience and those listening that it was a Republican program, unfortunately. I wish I could make an investment as sound and secure as a builder makes when he builds a new construction section 8 with a guaranteed rental and a guaranteed cost-of-living increase and a guaranteed everything else, including guaranteed bankruptcy of the United States.

I would say, however, Mr. Secretary, that even though HoDAG seems to have had its faults, there are many of us here who are putting in and will pursue a national Nehemiah housing project idea to not only house moderate income people, the people who in fact make our society work—policemen, firemen, and so on—but to also free up the public housing units that they are now occupying in cities like New York, so that those who should be in public housing can be there. And under budget restraints, we certainly are not going to add any money for the program but we will explore making it an allowable expense under the community development block grant funding or find some other funds for it. One of the things that I put in the last housing bill which was not funded was a program to bring Health and Human Services and HUD together. We have had ongoing discussions with the Appropriations Committee for the last 2 months and I'm determined to try again. The program would cost \$25 million but would make considerable improvements in the quality of low-income housing.

It appears that Health and Human Services is pouring almost as much money as HUD is into housing and yet there are no controls and no standards and no requirements for what that rental money buys.

I just wondered if you have any objections to that demonstration program or would have any objections to having it go on since we have now been led to believe it really wasn't funded simply because nobody on the Appropriations Committee understood it at that point.

Secretary PIERCE. Specifically, are you talking about an HHS program?

Mr. McKINNEY. No. Specifically, it was to get HHS and HUD together so that HHS would stop being the biggest rent payer for slums and substandard housing and bringing Government payments of rent in line with mod-rehab in HUD to ensure that Government payments for rent went into paying for, at the very least, decent and standard housing.

Secretary PIERCE. I don't know of anything that we have done specifically with HHS on this. Let me ask my people.

Apparently, we have done some talking but we have really done nothing up to this point.

Mr. McKINNEY. Well, we really haven't given you money yet. I just wanted to be sure that when it comes up again in the new housing bill it will have the great cooperation received from many of you in the past.

Mr. Secretary, I've just got to say that UDAG, with all of its carbuncles, warts, barnacles, hotels, still has done great things, and I have been meeting almost constantly and consistently with a massive group of moderate Republicans who wish to see it retained, though they certainly are willing to see it retained at the 1985 budget levels.

I appeared before Budget Committee Chairman Gray for the New England Congressional Caucus and the Northeast-Midwest Economic Coalition and it seems to be the opinion of most members of those groups that HUD's programs should be frozen at 1985 levels and that there should be some changes in the existing programs to try and achieve more for less. An example of which would be the emphasis on a Nehemiah type project which would require quite a bit more help from State and local efforts such as the zeroing cost of land as the local efforts.

I would also say, Mr. Secretary, that I don't agree that the \$1 billion you cite in performance funding is 100 percent in public housing because I don't think the vacancy suggestion is going to get through this committee. I'm just looking at pragmatic facts rather than opinion. I think that \$1.2 billion would probably be closer to the actual amount, but I want to applaud the efforts of yourself and Assistant Secretary Lindquist for trying to bring about more local option and trying to bring about some modernization in the management of public housing. I look at the figures left over that we have not expended and I must say that it seems to me if there was ever a system of delivery or a part of our housing programs that needed modernization, public housing is it.

I must say that I could not be more pleased at what the private management experiment in Bridgeport, CT, has been able to

achieve. It's the first time in the 14 years I've been in Congress under both Republican and Democratic mayors of that city that the public housing authority has not been a total, unmitigated corrupt mess, and I hope we can continue the experiment along those lines.

Chairman GONZALEZ. Did you have any statement, Mr. Pierce, that you want to make?

Secretary PIERCE. No, sir, not at this time.

Chairman GONZALEZ. Ms. Oakar.

Ms. OAKAR. Thank you, Mr. Chairman.

Mr. Secretary, I am somewhat astounded at your testimony, but I'm not going to—

Secretary PIERCE. Will you tell me where you're astounded and maybe I could say something?

Ms. OAKAR. Well, I'd be happy to. Do you want me to be specific?

Secretary PIERCE. Yes.

Ms. OAKAR. I was going to ask you what battle you waged on housing money with David Stockman because you really lost. The housing bill was gutted.

Secretary PIERCE. What in my testimony?

Ms. OAKAR. I'm asking you questions, Mr. Secretary. Well, let me go into your testimony because we do have people watching all over the country and I would not want the American people to think that you have lost the housing program.

For example, you say in your testimony that under the Reagan administration more units, more people were housed than ever before in history.

Secretary PIERCE. That is true.

Ms. OAKAR. But what you don't say is that you're living off the Carter legacy.

Secretary PIERCE. No. The Carter legacy is gone. The Carter pipeline is finished and we did many things to increase the housing. For example—

Ms. OAKAR. It's not finished. You'd like to cut it off.

Secretary PIERCE. May I finish?

Ms. OAKAR. Let me finish before you interrupt me. All right, Mr. Secretary. You're a witness before our committee; I'm not a witness before HUD. All right?

During the Carter years, we had a net of additional families housed of 1.3 million people. During the Reagan years, it went down by 75 percent, 296,000 people. So the net loss is 76 percent. It is your budget proposal—and I hold you responsible. If you didn't win the budget battle and you don't believe in the budget, then if that were me and I just couldn't believe in what the administration was doing, maybe I'd do something else. In your budget proposal, you have zero for new construction of public housing, zero for section 8, zero for the homeless, zero for 202, and you have decreased the Modernization Program.

My city of Cleveland has among the oldest units in the country and needs up to \$46 million to modernize. The budget request is about \$1.5 billion. The difference in what we passed last year to the decrease is \$11.7 billion, which incidentally, for the benefit of my colleagues, is about the cost of the MX missile.

There are 27,000 senior citizens, for example, in Greater Cleveland alone on a waiting list for some kind of public housing assistance.

Now I say to you, if you ask the American people what they thought was more important, what their values were, housing the poor, the elderly as in the case of the example I gave, or some boondoggle of missile the President is really going to bat for, I think they care more about people than weapons. You come before this committee and defend this budget, which is a nonbudget. It's a nonbudget. There is no money virtually for the poor in this budget and the programs that you in the past have espoused, such as the Voucher Program that was passed in 1983. Let me ask you a question about the Voucher Program, because this is a cute trick that HUD plays.

Has there been one contract issued for the Voucher Program that was passed over 2 years ago?

Secretary PIERCE. Yes, it's already started.

Ms. OAKAR. Where?

Secretary PIERCE. Let me find out. They will be housed, I understand, starting in April.

Ms. OAKAR. Who's they?

Secretary PIERCE. People who receive these vouchers.

Ms. OAKAR. Why did it take 2 years to implement a program that you think is so terrific?

Secretary PIERCE. I think it's terrific, but Congress made this a demonstration program and required HUD to meet a number of conditions before it could become effective. In other words, the Congress of the United States caused much of the delay by imposing those conditions.

Ms. OAKAR. Let me tell you that's not true. You know that.

Secretary PIERCE. No, I don't know it. That's what my people tell me.

Ms. OAKAR. Well, what about you? Have you been out in the field?

Secretary PIERCE. Many times.

Ms. OAKAR. I'm told the only time that you go out to visit places is not to see the tenants and so forth, but only if there's some new construction. Additionally, I've heard you won't give a speech unless you get an award and that sort of thing. Now I don't know if that's true.

Secretary PIERCE. That's a lie.

Ms. OAKAR. Let me invite you to Cleveland, OH, Mr. Secretary. Will you come?

Secretary PIERCE. I have been to Cleveland, OH, several times and all you have to do is ask Mayor Voinovich how many times I've come there and how often I've supported Cleveland in so many things. Just talk to your mayor.

Ms. OAKAR. Well, let me tell you, I've talked to my mayor, but I happen to be a native Clevelander. Let me invite you to go through the public housing units in Cleveland with Congressman Stokes, the dean of our Ohio delegation, and myself, and let us show you. I think what's happening in Cleveland is indicative of the problems that we have in housing the poor in this country. To come before

the Congress and mislead the American public that you have a viable——

Secretary PIERCE. I don't believe that I've been misleading the American public.

Ms. OAKAR. You absolutely have misled them.

Secretary PIERCE. If somebody can point out statements in my statement that are wrong, then I will be the first one to say that they are wrong and I will take them back, but all I have heard here is a lot of oratory, with no indication of which specific statements I made were wrong.

Ms. OAKAR. You have taken credit for new people being added to housing programs when you know every year since its inception there have always been new people and most of the new people added have been part of the legacy of the Carter administration.

Secretary PIERCE. I disagree.

Ms. OAKAR. It was pipeline money and you know it.

Secretary PIERCE. Now look——

Ms. OAKAR. And I don't think the American public should be misled.

Secretary PIERCE. Madam Congresswoman, I completely disagree with that for a number of reasons. First of all, take a thing like FAF [financial adjustment factor]. I don't know whether you remember that. But that was done at my instigation. It was at a time when builders said they were not going to construct assisted housing because mortgage interest rates were too high to make such building profitable. We worked out a program known as FAF [financial adjustment factor] which subsidized part of a builder's mortgage interest payments. This encouraged builders to construct assisted housing, and a result, 87,000 assisted housing units were built that otherwise would not have been constructed.

In addition to that, during the Carter years, there were a lot of underfunded units and we gave amended funding to many of those units so that they could be constructed. If we had selected not to do that, there would be considerably fewer assisted housing units in existence today.

Yes, I take credit because we have helped and we have increased the amount of housing. There are more people housed today than ever before in our history.

Ms. OAKAR. Let me tell you the trick—Mr. Chairman, just one last statement—the trick that HUD plays is that even when we put programs like shared housing, which is my bill, in authorizing legislation. HUD still has not issued the regulations for that program and it's been over a year and a half since we passed the bill. That's the trick they play once we do have a bill. There is no housing program under this administration and I think the values of our country are reflected in terms of the manner in which we treat our homeless and our elderly and our poor. Unfortunately, under the values of this administration, they would be more concerned about boondoggles like the MX missile than the people of this country.

Chairman GONZALEZ. The gentlewoman's time has expired, and I would suggest that we do pretty much what I have at the outset indicated and that is, any specific questions may be reduced in writing, but we have quite a number of members here and we want to be sure each is given an opportunity to ask questions. This, of

course, could go on endlessly, but if we put it in the record in succinct specific questions, then we can judge the answers as to whether they are responsive or not and accurate or not.

Mr. Wylie.

Mr. WYLIE. Thank you very much, Mr. Chairman.

Mr. Secretary, I want to congratulate you on an excellent statement. I think your statement demonstrates a lot of thoughtful concern about housing in a reasonable way with the taxpayers in mind and just to calm the rhetoric a little bit here I suggest that we are in a tough position on this committee. I think that you are probably aware that your budget proposal, which is almost zero, probably can't get a majority vote in the House. On the other hand, neither can H.R. 1, which almost doubles the amount of money that we spent last year, get a majority vote in the House—at least I hope it doesn't.

But there are many of us who would like to see a reasonable housing bill passed that stands a chance of enactment into law, and I wonder what you would think about a bill based on levels of funding at fiscal year 1985 levels. Does that strike you as a possibility?

Secretary PIERCE. That certainly strikes me as a possibility, but let me say this—first, I want to set the background for this—that we are facing a tremendous problem with deficits and what this administration is trying to do, is to get to that problem and resolve it. And we argue within the administration as to what should be cut and a final decision is made by the President. He's the coach of the team and he makes the decision.

Now I don't think anybody here would disagree with me that we have to face the problem of reducing our deficits and we have to reduce the budget in order to do that. Cuts are made in the first instance, of course, by the administration and the President. Then it becomes the Congress' problem, and it's up to you to review the budget proposal and see where you think the proper cuts should be made.

Mr. WYLIE. Yes. I don't think housing is our most serious problem. I think the budget deficit is, and I think that if we do make a serious effort to reduce the deficit that it can benefit housing in the long run vis-a-vis the private sector.

But I think along the lines of an observation that Mr. McKinney made a little earlier, that one of the mistakes we've made as far as the Federal Government is concerned is obligating ourselves to long-term commitments.

I remember a gentleman on the other side of the aisle, former Chairman Lud Ashley, warning us that the excessive costs of the Section 8 Program would be staring us in the face if we kept on the path we were on at that time, and he was right and I don't think that we should leave our successors with a huge debt that they have to cope with which is part of the problem we have here.

With that in mind, would it be possible for us to shorten the contract term on existing section 8 projects? I know you referred to subsidizing families and not builders and I agree with that, but what about the landlord on existing housing projects?

Secretary PIERCE. I think that could be done, yes. We have 5 years on the voucher. I think we could also reduce the existing section 8 certificate to 5 years.

Mr. WYLIE. And that would reduce our long-term obligation. So I think that's something that we really should look into with a possibility of getting some help for you there.

Recently there was a lot of publicity on a Federal grand jury indictment of 21 tenants in a federally assisted housing project in Seat Pleasant, MD, for falsifying income information in order to qualify for Federal rent subsidies. Are you familiar with that case?

Secretary PIERCE. I am not totally familiar with it. I have heard of it, yes.

Mr. WYLIE. Well, in your 1983 legislative proposal you proposed an income verification provision which would require an applicant to disclose his or her Social Security number or employer identification number as a check to verify tenant's income. In this past legislative session, Congressman Chappell introduced similar legislation.

In view of situations like the Seat Pleasant incident, what would you think about such a legislative proposal?

Secretary PIERCE. I think it's great. That's why we have it in and I think our legislative proposal is a very good one. I think we need to check to find out.

Mr. WYLIE. That is in your proposal?

Secretary PIERCE. We have in our proposal getting the Social Security numbers so we can check with State agencies and try to find out the precise incomes that people have.

We have used that information to make sure that the people who are housed are eligible for housing and they're not taking space from somebody who legally deserves it.

Mr. WYLIE. Since this involves Social Security, I would assume that the Ways and Means Committee has some jurisdiction over it. You haven't been called to testify to the Ways and Means Committee, have you?

Secretary PIERCE. No, I have not.

Mr. WYLIE. But if called, you would recommend to them that they adopt some sort of a proposal like this?

Secretary PIERCE. Yes.

Mr. WYLIE. I thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you.

Mr. Vento.

Mr. VENTO. Thank you, Mr. Chairman.

Mr. Secretary, since last August, about 7 months ago, I have raised concerns about the legality of a \$4 million UDAG grant for the Amhoist Co. in Wilmington, NC. I provided HUD with information showing that Federal funds were being used for relocation in violation of section 119(h), the antipiracy provision of the UDAG law.

I might say, Mr. Secretary, parenthetically, that I have never received a written response from you substantively with regard to this issue, in spite of the fact that that letter was written last August. I have received acknowledgments, but no answer.

Subsequently, on October 1, your office in HUD provided and made a grant along those lines. At my request subsequently HUD has held up the \$4 million check and held an investigation into the Amhoist UDAG.

Has the Department announced its final decision on whether it will fund the Wilmington Amhoist UDAG?

Secretary PIERCE. No, it has not. And the reason you didn't get a final answer is because no final answer has been made yet.

Mr. VENTO. Well, Mr. Secretary—

Secretary PIERCE. May I just say one other thing?

Mr. VENTO. No.

Secretary PIERCE. They have just sent you a letter asking for some information.

Mr. VENTO. And I have sent back the answer and you've got the answer and you're supposed to have read it.

Secretary PIERCE. No, we have not received it.

Mr. VENTO. Well, let me complete my questions, Mr. Pierce.

Chairman GONZALEZ. Mr. Vento, please. I don't believe that increasing the decibels in asking our questions is going to produce any better answers one way or the other. So I appreciate the gentleman's strong feelings. I know how intensely he feels. Let me point this out, Mr. Secretary. By the very nature of our being here, we have to be there answering the questions to the people that we're supposed to be representing so that we must understand the intensity of the feeling of the Representatives that are in very intimate contact with their constituents and if they ever write a letter to you it's after a great deal of reluctance to do it, but compelled by the circumstances.

Mr. Vento, thank you. I didn't mean to interrupt.

Mr. VENTO. Well, Mr. Chairman, Mr. Pierce has—

Chairman GONZALEZ. Just a minute. Mr. Roth.

Mr. ROTH. Mr. Chairman, I was going to make a point of order. I appreciate your comments, Mr. Chairman, but by the same token I think we want to remember that civility is not a sign of weakness. We may not agree with the witness, but that doesn't mean we have to be totally uncivil.

Chairman GONZALEZ. Well, civility is a double responsibility.

Mr. Vento, you're recognized.

Mr. VENTO. The fact is that there is no substantive response to my letter. The grant was made October 1 and there have been subsequent letters to you. There has been a letter to me, Mr. Secretary, which I have responded to within a 24-hour period of time and I asked specifically that you be given that letter. Apparently, you have not been given that letter.

The Department has not made a final decision. Mr. Pierce, HUD has previously announced the decision would be made February 28. Today is March 13. The St. Paul Crane Production operation will close down April 1. After that date, those jobs will be gone.

When will you make a decision and when will we be informed?

Secretary PIERCE. We are working on it and we hope to make it very shortly. As a matter of fact, I have with me two of the people who are working on it, and if you want to ask some detailed questions about it, you can ask them because they are working on it and they have not submitted their position to me as yet.

Mr. VENTO. Mr. Secretary, you are here today 2 weeks after the date you promised to make a final decision on this specific UDAG grant, a full month after you received a letter from Chairman St Germain, Chairman Gonzalez, and myself. It's 2 months after Am-

hoist publicly announced the shutdown of the St. Paul factory and permanently ousted 450 to 500 employees. Finally, it's 6 months since I brought you my concerns about the misuse of this UDAG grant, and the fact is that my office has on three separate occasions informed the Department that this topic would be a subject of questioning at this hearing.

Why aren't you prepared to discuss this?

Secretary PIERCE. I have the key people here. Let me tell you how UDAG works. First of all, they——

Mr. VENTO. Mr. Secretary——

Secretary PIERCE. Do you want to know or not?

Mr. VENTO. I believe I know how UDAG works and I don't think it's necessary for you to go through that at this time for me.

What I'm interested in is some answers.

Secretary PIERCE. Well, I said I have two people here and if you want to get into the specifics they are right here ready to answer your questions.

Mr. VENTO. Mr. Secretary, you're charged with responsibility in terms of dealing with this and yet you insist on not giving the answers to these specific questions. You have not responded to my letter of August 28.

Secretary PIERCE. Don't you know——

Mr. VENTO. You have not responded and you have not kept the schedule with regard to the issue. Certainly you've been aware for a long time——

Secretary PIERCE. Do you want to know the answers? There are people right here to give you the answers. Do you want to hear them?

Mr. VENTO. Mr. Secretary, it's my understanding the the UDAG application has a box for a company to check if UDAG will result in relocation. Is that correct?

Secretary PIERCE. What's this?

Mr. VENTO. Does the UDAG application have a box to check if it's going to result in relocation, if the application will result in relocation?

Secretary PIERCE. Does it have a box?

Mr. VENTO. You want to talk about UDAG and UDAG applications and I thought I'd give you an opportunity to talk about them.

Secretary PIERCE. Boxes on the UDAG application, we have people here who can talk about the boxes.

Chairman GONZALEZ. Will you give your name and your title to the reporter?

Mr. FINKLE. Mr. Chairman, my name is Jeffrey Finkle and I'm Acting Deputy Assistant Secretary for Program Management in the Office of Community Planning and Development.

Mr. VENTO. Mr. Finkle, you heard my question with regard to the application. Would you answer for the Secretary?

Mr. FINKLE. The application says——

Mr. VENTO. Does it have a box or not to indicate whether or not there will be relocation, yes or no?

Mr. FINKLE. The question is in the application, "Will the project result in relocation of industrial or commercial facilities from one jurisdiction to another?" The applicant, Wilmington, NC, answered, "No."

Mr. VENTO. If that box is checked does that result in an automatic rejection of the grant application?

Mr. FINKLE. Would you repeat the question, please?

Mr. VENTO. If the box is checked, does it result in the automatic rejection of the grant application?

Mr. FINKLE. Not necessarily.

Mr. VENTO. If the applicant marks this box and you determine that the relocation is not significant or adverse, then the grant is funded; is that correct?

Mr. FINKLE. I believe that's correct.

Mr. VENTO. Does the Department have any way to verify the number of jobs the applicant admits will be transferred?

Mr. FINKLE. We have verified that to the best of our ability.

Mr. VENTO. Does it have a means to do that? What does the Department do in order to verify that the relocation is limited to the magnitude which the applicant admits?

Mr. FINKLE. We have verified this information by talking to the company. We have verified this information by talking to the mayor of your city, with representatives of the Governor's office. We have talked to people in Wilmington who applied for the grant on behalf of the company.

Mr. VENTO. Let me point out, Mr. Finkle and Mr. Secretary, I want to draw your attention to this. Let us look at the procedures here. In other words, on Amhoist's application you have indicated the relocation box was checked, Mr. Secretary. A copy of the application says that there are 25 to 30 job relocations. Yet, this was the headline in the St. Paul paper in January after the October application was approved. Is that big enough for you to read, Mr. Secretary? It says, "500 jobs." Now that's the type of job that your Department and your people are doing with regard to this particular issue—35 on the application, 500 in reality, Mr. Secretary.

Do you think that that's satisfactory work?

Mr. FINKLE. Congressman, if I could respond.

Mr. VENTO. Mr. Secretary, do you think that that's satisfactory work?

Secretary PIERCE. First of all, I don't know whether what's in the newspaper is true or not. The newspaper says that. People on my staff said they went to talk with the officers of this company and with the mayor of your city, and with people in the Governor's office. I think they know the situation better than the newspaper.

Mr. VENTO. You think it's right, in other words, when you're conducting an investigation—how many times, Mr. Finkle, have the Amhoist people been in trying to respond? You sent them a series of eight questions. How many times have they been in for you to help them answer those eight questions with regard to the investigation, the so-called investigation you're conducting? How many times have they been in to talk to you about those questions?

Mr. FINKLE. Less times than your staff has been, sir.

Mr. VENTO. Less times than my staff? How many times have you talked to me, Mr. Finkle?

Mr. FINKLE. I've talked to you on one occasion when I came over to your office.

Mr. VENTO. How many times have you talked to my staff substantively about this application? How many times have you personally talked to me about it?

Mr. FINKLE. On a number of occasions.

Mr. VENTO. On a number of occasions you talked to them and you were handed information and you're trying to avoid picking it up. You don't care how many times you refused to share information with us with regard to this grant application. You refuse to do an investigation.

Mr. Secretary, the problem here is that you're responsible for administering this particular program, not the Congress. I'm not responsible for the investigation. You're not doing it. The end result, Mr. Secretary, is that the workers in this factory are not getting a fair shake from HUD and I think you're destroying—

Secretary PIERCE. I disagree with that. We've talked to your mayor and we've talked to your Governor.

Mr. VENTO. You're responsible for administering the law, not my mayor, not my Governor.

Secretary PIERCE. We are and we're doing it.

Mr. VENTO. You're not giving the workers a fair shake. You're not giving the workers a fair shake, Mr. Secretary.

Chairman GONZALEZ. Mr. Vento, you're out of order. Your time has expired. We made allowance for our interruption plus 1 minute.

May I suggest that the gentleman to the right also identify yourself for the record?

Mr. MORAN. Thank you, Mr. Chairman. My name is Alfred C. Moran. I'm the Assistant Secretary-designee for Community Planning and Development, Department of Housing and Urban Development.

Chairman GONZALEZ. I do know that this is a very vital question, of course, but, Mr. Vento, the budget—and I think the Secretary verifies that in his statement—calls for ending UDAG, so—

Mr. VENTO. Well, Mr. Chairman, if someone wanted to undermine the UDAG Program by virtue of what they're doing, I think that they're doing a pretty good job of undermining the program. It will become a self-fulfilling prophecy as far as this member is concerned.

Chairman GONZALEZ. I would suggest though that being as it is such a vital question that for the record you submit in writing the specific questions and then we will allow the transcript to be presented to the gentlemen involved in ample time to address your question for the record.

Mr. VENTO. Mr. Chairman and Mr. Secretary, the jobs are going to be lost April 1. That's my problem. I mean I can wait for the transcript and we can wait for a lot of things and we can review it and we can tell ourselves a lot of things, but those jobs are going to be gone, 500 workers are going to be out of jobs. They've dragged their feet so long that they have I think undermined the very nature of the good-faith effort that I have made.

Secretary PIERCE. I think we have a different understanding.

Mr. MORAN. Mr. Chairman, may I make a statement, please?

Chairman GONZALEZ. Yes.

Mr. MORAN. I would say this, that there is evidence that we have that the loss of the 500 jobs you're speaking of may not be related necessarily directly to the UDAG in Wilmington, NC, as opposed to the closing of the plant in St. Paul. In other words, the two events may have some separation in terms of their causation.

Mr. VENTO. Well, that's very interesting to find that because the fact is that they are closing this and opening another plant and there is a direct—they're taking the guts of that factory and transferring it to Wilmington. Television cameras have followed them down to Wilmington transferring the plant. They've got the production orders. We gave them the documents; 26 of the 27 products they plan on producing are going to be produced in Wilmington and you make that statement. I suggest you'd better get back and get some affidavits.

Mr. ROTH. Would the gentleman yield?

Chairman GONZALEZ. The gentleman's time has expired. He has nothing to yield. [Laughter.]

Chairman GONZALEZ. Ms. Roukema.

Ms. ROUKEMA. Well, Mr. Chairman, I feel compelled to not enter the fray but at least make a statement on the question of the UDAG and piracy of jobs as it relates to New Jersey and the New York situation and I did not intend for this to be the focal point of my discussion. I simply want to make a statement. If the members from New York want to use their time to further the discussion, that's fine, but I simply want to say to the Secretary, as his staff well knows, and since I was not in town at the time when the New Jersey delegation met with the Secretary on the subject of the UDAG piracy issue, as you know, Mr. Secretary, that issue is now in court.

But I want to stress to you that the regulations and the interpretations that your Department has put on the issue as it relates to New York and New Jersey by the definition of the 50-mile limit can be interpreted in no other way than as being prejudicial to New Jersey and effectively closing us out of the UDAG market. As you know, that is the position of our Republican Governor and we are currently in court on the matter—but I can see no rationale for New York taking the position in the absence of discussion of the New Jersey authorities involved—taking the action that it did that does not seem fair and evenhanded to us, at least not before the fact. I hope that the court is going to be able to give clarification to the problem.

I would not like to see the UDAG Program eliminated because of these problems of piracy. If there are other questions involved, fine; but it should not sink under the weight of the piracy issue I would hope.

Now to get on to my question—and I guess it's a brief of mine on behalf of the Voucher Program. Mr. McKinney and Mr. Wylie have already alluded to it. I would hope that we would end up with at least a freeze on the Voucher Pilot Program as we have known or as we intended it would be implemented.

To give you a graphic example of why I put in such a strong recommendation for this, I want to give you an example of a constituent of mine who recently applied and was certified for a section 8 certificate in northern New Jersey.

The fair market rental rates effectively make the section 8 unrealistic in terms of that rental market. Even though she is a low-income person, a single woman with two children, living in desperate need of housing and working very hard as a home health care professional, she is nevertheless in the low-income category. She did want, as desperate as she was for housing, to supplement her section 8 subsidy with her own salary. In other words, pay above the 30-percent rental, which is the equivalent of the Voucher Program really, isn't it? She wanted to supplement it.

Under present regulations and present law—and I'm not sure about the law but I know that it's been the interpretation of things so far—that is illegal for a section 8 subsidy.

Secretary PIERCE. That's right.

Ms. ROUKEMA. Pardon me?

Secretary PIERCE. That's right.

Ms. ROUKEMA. Which is the rationale for shifting to the Voucher Program.

Secretary PIERCE. That's part of the rationale for shifting to the Voucher Program.

Ms. ROUKEMA. Well, what is the other rationale?

Secretary PIERCE. Well, for example, it's—

Ms. ROUKEMA. The cost of new construction?

Secretary PIERCE. No. It's flexible, too, because if I lived in New Jersey and my job shifts to New York, I can take the voucher with me. I can't take the section 8 existing certificate with me.

Ms. ROUKEMA. No, you can't. Well, fine, if that's there, that makes me even a stronger advocate for vouchers. I support your program.

My point is, on the one hand, in this next bill, I hope we can come up with at least a freeze on the voucher system, but then I would hope that your Department would do two things, because we're going to have a bill this year—that you would do something to help us revise the existing Section 8 Program—not new construction—I'm talking about the subsidized existing housing—and apply for a woman like this and make it possible for a person who is in this situation. I see no reason to hold up that false wall between what is a voucher and what is a section 8 certificate. I don't see it now. If you can explain it to me, fine, then shift all your resources to vouchers, but in some way—

Secretary PIERCE. That's what we want to do.

Ms. ROUKEMA. In some way serve the need at least at the existing frozen level this year. Do you understand the problem?

Secretary PIERCE. Yes. We'll look into it.

Ms. ROUKEMA. All right. Thank you very much.

Secretary PIERCE. You're welcome.

Chairman GONZALEZ. Mr. Garcia.

Mr. GARCIA. Thank you, Mr. Chairman.

Mr. Secretary, I guess back to 1981 when you first came before us I said that you and I are here as adversaries. I guess it really hasn't changed much, except the last 5 years have been a total disaster for the poor. And I think that one of the saddest parts of that legacy that you will have as Secretary of HUD and the millions of people who have not been given an opportunity for affordable housing will probably look at you one way or another, but history will

judge all of us based on our deeds and what we consider to be the right or the wrong thing to do while we are here on Earth. And whatever our motives are, doing what we have done, all I can say to you, Mr. Secretary, is I wish you well.

Secretary PIERCE. I wish you well, too.

Mr. GARCIA. And I would say to you as well, Mr. Secretary, the first time you came to testify, as opposed to today, 5 years later, I would say that you have learned to testify before committees and you're much more aggressive now. You're not passive at all and I think that's a credit to you because we're Members of Congress and we're representing the people that we live with.

Mr. Secretary, in a question to Mary Rose Oakar, my colleague from the city of Cleveland, you asked specifically, in your statement, where are the problems.

On page 1, you talk about the housing industry being hale and hearty. You talk about the deficit.

Secretary PIERCE. That's right. The housing industry is hale and hearty. In 1981 it was in terrible condition. Just look at any statistics or any economic indicator and you will find that so.

Mr. GARCIA. OK. But you also went into great detail about the deficit. On page 2 you talk about the Voucher Program which we started talking about back in 1981. The year is 1985. The Voucher Program, as far as I'm concerned, is only destined to work where there is stock available. You have just said to my colleague from the State of New Jersey that those vouchers are going to also permit people to move from State to State, just like UDAG moves jobs from State to State.

Secretary PIERCE. Not UDAG.

Mr. GARCIA. Well, that was in response to the gentlewoman from New Jersey.

Anyway, just let me finish. Page No. 3, you talk again about vouchers. Page No. 4, you talk about vouchers.

Secretary PIERCE. What's wrong with that?

Mr. GARCIA. Because the Voucher Program was something, Mr. Secretary, that we talked about in 1981. Five years later there is still no program and you still are talking about vouchers and the program still has not come into effect.

Now that means that there's a lack of leadership, Mr. Secretary.

Secretary PIERCE. No, no. Congress delayed the authorization of vouchers, but that's neither here nor there. The program is coming into effect, but we only have at this point 51,400 vouchers. Congress eventually passed laws giving us that much.

Mr. GARCIA. Mr. Secretary, I've got many colleagues who want to ask questions and I'm not going to go beyond my 5-minute limit, so I'm really handicapped because we don't get the chance to have you come and place yourself on the record that often. Maybe it's our fault. We may not have invited you often enough. I don't know how that works.

But anyway, toward the end of your statement, you talk about enterprise zones and I would like to spend some time on enterprise zones. I've spent a good portion of my career here in the Congress pushing this because I feel that it's a program that's worth trying.

In 1980, we introduced this legislation. When I say "we," I mean my colleague Jack Kemp and myself. We introduced it bipartisan—

not only bipartisan politically but bipartisan in terms of ideology. I'm a liberal. He's a conservative.

We put this bill in during the Jimmy Carter days. The President of the United States, on accepting the responsibility as the head of this great country, made this one of the pillars of his program. Now, every time you talk about this program, you talk about it as if it was a device to replace all the other programs that Stockman and the Bureau of the Budget are eliminating. Now the intent of this program has never been that.

And at the beginning of this year at your first press conference in terms of what you wanted to do, you talked about enterprise zones as being in place of UDAG. Now, Mr. Secretary, that was your statement. Now you have a chance to correct it right now.

Secretary PIERCE. Let me tell you that that is not intended to mean that at all.

Mr. GARCIA. What is it intended to mean?

Secretary PIERCE. What I meant was that if we were going to lose UDAG, let's at least have this. That's the idea. It does not take the place of UDAG. They are two separate and different programs.

Mr. GARCIA. Mr. Secretary, this is your press release.

Secretary PIERCE. All right. Forget the press release. I'm telling you what I said. I'm telling you what I meant. Do you accept what I meant or not?

Mr. GARCIA. Well, I will accept what you meant, Mr. Secretary.

Secretary PIERCE. All right.

Mr. GARCIA. I will accept it, but I just would like you to know, Mr. Secretary, that this was not issued by Bob Garcia's office.

Secretary PIERCE. No, I don't—mistakes are made in press releases and things like that.

Mr. GARCIA. And it was a mistake?

Secretary PIERCE. That's all.

Mr. GARCIA. Fine. As long as the record indicates that because I think it's important.

Mr. Secretary, in the city of New York right now, talking about the quality of life, we have within our public housing projects about 50,000 people, families, who are doubled up—50,000 people. That figure was not there in 1981. That figure is there today. You can check with John Simon. You can check with Mr. Christian. There are 50,000 apartments within our housing projects in which more than one family is living. That figure was not there before.

Let me go beyond that. At the present time in the city of New York alone, we have a waiting list of 170,000 people waiting to get in public housing.

Now if you can say to me that the quality of life in America has improved for the poor and you can sit there and say that, I would tell you, Mr. Secretary, since you visited my community in your first year as Secretary—you were kind enough to come up—but I would tell you, that based upon your visit, you obviously did not see very much. You did not see the poverty. You did not see what was taking place there. I must tell you that the situation at this particular moment in the history of my city—and I think your city as well—is that our housing situation is worse today than ever before. And I think that's a situation, Mr. Secretary, that you're going to have to live with.

Chairman GONZALEZ. The gentleman's time has expired, unless the Secretary has some response he wishes to make.

Secretary PIERCE. Well, everybody has their own opinions on these things and, as you said earlier, let history be the judge.

Mr. GARCIA. Let the good Lord be the judge. When the Maker comes, let him decide whether your presence on this Earth or whether my presence on this Earth was such that in fact it was worth our while being here.

Secretary PIERCE. OK. God bless you.

Chairman GONZALEZ. Your time has expired, Mr. Garcia.

Mr. Wortley.

Mr. WORTLEY. Thank you, Mr. Chairman.

Mr. Secretary, I think you've got one of the toughest jobs in this town. You seem to be damned if you do and damned if you don't. The public is out there clammering for us to face up to these enormous Federal deficits we have. Apparently, some of my colleagues don't bother to read their mail. It's tough to stand up and fight the administration downtown and do what you believe is right for all of the people in this country. I think you're doing a very effective job.

The hard, cold fact remains that next year, 5 years since you became Secretary of Housing and Urban Development, there will be about a 40-percent increase in federally assisted housing of Americans who are receiving federally assisted housing, and a million more people. I think that's a pretty good record. I think you can stand on it and hold you in good stead.

I have just a couple questions I'd like to ask in order for us to discuss the proposal on the part of the administration to have HUD take over some of the areas of housing that Farmers Home Administration has addressed in the past.

Do you really think that your Department, which is urban oriented, is in a position to meet the needs of rural housing in this country?

Secretary PIERCE. Well, I think, based on the programs that we are getting, we will be able to do it.

Mr. WORTLEY. And they have got about 2,000 offices sprinkled around the country?

Secretary PIERCE. Yes, and they are going——

Mr. WORTLEY. You have got about 50——

Secretary PIERCE [continuing]. To be reduced substantially under the budget situation. They will be reduced drastically. So they won't have those kind of offices anymore.

Mr. WORTLEY. The Farmers Home Administration up in our area has played a major role in providing housing in the more rural areas, and I have one county that has more registered Holsteins than registered voters.

I have been very interested, as you may know, in the Home Equity Conversion Program. I might say I have been somewhat disappointed that the final 1983 housing bill contained a requirement for a study rather than a demonstration program, which was contained originally in the Senate bill. I hope that this Congress will take a closer look at the issue, more along the lines of a demonstration program.

I understand that your Department is completing the study, and I look forward to reviewing its findings.

Could you tell me when I might expect to?

Secretary PIERCE. It should be completed shortly. Let me see if I can get an exact date for you. [Discussion with staff.]

It will be done by the beginning of April, sometime in the beginning of April.

Mr. WORTLEY. We can rest assured that we will have it in April?

Secretary PIERCE. I certainly do. I will squeeze her neck if it is not done by that time. [Indicating a staff member who had given him the information.] [Laughter.]

Mr. WORTLEY. Well, you are a tough guy to endure all of the questioning and cross-examination here this morning. I am sure you can get some results to us.

I yield back the balance of my time.

Yes, Mr. Frank. I see you are up on the upper tier now.

Mr. FRANK. Yes.

Chairman GONZALEZ. Senior member.

Mr. FRANK. Thank you, Mr. Chairman.

The first thing I want to say, Mr. Secretary, is that I am glad to hear that we are going to be getting that proposal about better verification of income. I had occasion to discuss that with Assistant Secretary Lindquist last year. It is something I had worked on when I was in the State legislature with regard to public assistance.

I think it is very important for those of us who are supportive of means-tested programs to make sure that they go to the people to whom they are aimed, and I would look forward to working with you.

I disagree with some of my friends who think that there is somehow an automatic civil liberties violation if you are efficient, and I think that it can be done. We have done it in Massachusetts in ways that protect the individual privacy of people, and I look forward to working with you on that, and I appreciate that that is coming up.

Secretary PIERCE. Thank you.

Mr. FRANK. The next question I have has to do with the homeless. Your Department has done some studies of the homeless.

What specifically, in what you have sent up to us or in what you are planning, will be aimed at the homeless?

The temporary cessation of the Voucher Program means that that potential resource wouldn't be there. I notice the 3,500 vouchers that are available would be for people who are already in some form of housing. It would be to prevent, I guess, that if their public housing was torn down, from producing new homeless, but that is not the major source of homelessness,

How does this budget that you have sent us and your various proposals affect the homeless? What is your estimate of what the homeless population will be a year from now if we adopt this budget?

Secretary PIERCE. Well, let me ask my people from PD&R. I think it is somewhere between 350,000 to 500,000, but just let me check that figure.

Mr. FRANK. Well, I mean, what is the impact of it? [Pause.]

Don't squeeze her neck, Mr. Secretary, if she doesn't have it right away. [Laughter.]

Secretary PIERCE. They haven't done a recent study. The last figure they had was 350,000 on a given night, and they think that at the present time there may be about a 10-percent increase above that amount. That is just thought. That is not—

Mr. FRANK. We assume there has been an increase.

What do you think will happen as a result of your budget?

I am trying to say, I assume that concern for the homeless is one of the things that was motivating you when you were doing this budget.

What is in this budget to deal with the problem of the homeless, and what would your estimate be of the result of adopting your budget as submitted? What would that do with regard to homelessness?

Secretary PIERCE. Well, let me talk a little bit about the homeless. There are some things that can be done directly by HUD or by communities that get money from HUD, such as CDBG grants. We urge communities to use some of that money for the homeless.

We lease single-family homes to—

Mr. FRANK. What—

Secretary PIERCE. Let me—can I just finish?

Mr. FRANK. Well, I would like to do it one piece at a time. I do like to get specific.

With regard to CDBG, your proposal is to do what with CDBG in this budget?

Secretary PIERCE. Well, it is going to be cut.

Mr. FRANK. To be cut for how much?

Secretary PIERCE. It is going to be cut by 10 percent.

Mr. FRANK. All right. So to the extent that that is one of the resources for the homeless, we will be doing less for the homeless presumably than we did in the current fiscal year?

Secretary PIERCE. Well, it depends on how a city uses its money.

Mr. FRANK. Well, that is right. If they did nothing at all, but—

Secretary PIERCE. And if they keep it up—

Mr. FRANK. I understand that, but—

Secretary PIERCE [continuing]. They get money from their own sources, they could—

Mr. FRANK. I have asked what is in your budget to deal with the homeless. CDBG is one resource. That is being cut 10 percent.

What are the other resources here?

Secretary PIERCE. Leasing single-family homes.

Mr. FRANK. Through what program?

Secretary PIERCE. We get single-family homes back through FHA.

Mr. FRANK. Right. Who would pay for that?

Secretary PIERCE. And then we lease them to cities or to private institutions that will take care of the homeless with them.

Mr. FRANK. Oh, but that is their money? You are the landlord? Are you giving them away for free or what?

Secretary PIERCE. No. No, we give them the homes free.

Mr. FRANK. All right, how many do you expect in this current year of those homes would be—

Secretary PIERCE. I really don't know. I can't tell you. You asked me what we use, what the tools.

Mr. FRANK. No, I am not just asking for a general discussion here. We are talking about a budget here.

Secretary PIERCE. I don't know how many of these houses are used for the homeless.

Mr. FRANK. All right.

Secretary PIERCE. A lot depends on how many we get back through FHA. I don't know exactly what that number is.

Mr. FRANK. All right, but what I was hoping for——

Secretary PIERCE. But we do——

Mr. FRANK. No, Mr. Secretary, please. I don't think these are unfair questions. The homeless is not some obscure subject. I am not asking you to——

Secretary PIERCE. Well, I am trying to give you what tools we use.

Mr. FRANK. No, I don't want to know just what tools you use. My question was: How will this budget affect the availability of those tools? Will we have more or less homeless?

Secretary PIERCE. Well, the budget will not affect the leasing of the housing. The budget will not affect it.

Mr. FRANK. There is no——

Secretary PIERCE. It depends on how many FHA houses we get back.

Mr. FRANK. Is there any proposal in the budget or any effort to increase that?

Secretary PIERCE. No.

Mr. FRANK. How many units are currently leased for the housing, approximately? Do we know?

Secretary PIERCE. I don't know offhand.

Mr. FRANK. Well, I would appreciate knowing that.

Secretary PIERCE. I will get the answer and put it in the record for you.

Mr. FRANK. All right.

[At the request of Congressman Frank, the following additional information was submitted for inclusion in the record by Secretary Pierce:]

RESPONSE RECEIVED FROM SECRETARY PIERCE

As of January of this year, 20 single-family properties in four regions were leased to organizations or units of local government to provide housing for homeless persons. This includes, in Region IV, two houses in Birmingham, Alabama and 10 in Memphis, Tennessee; one house in Pontiac, Michigan, in Region V; three houses in Caspar, Wyoming, and one property in Fargo, North Dakota, in Region VIII; and three properties in Phoenix, Arizona, in region IX. Leases are for one year, renewable at the option of the organization or locality, at a nominal rent payment of \$1 per year.

Mr. FRANK. What else have we got besides the leasing?

Secretary PIERCE. We urge the PHA's that have sustained vacancies as resources to house the homeless, and we also use a certain number of section 8 certificates as a set-aside to shelter homeless.

Mr. FRANK. Well, let me ask, if I can, about the PHA's now.

That is presumably for no rent? They would be allowed to rent those for free to the homeless?

Secretary PIERCE. Basically for no rent, or they may make a deal with a charitable organization.

Mr. FRANK. All right.

Secretary PIERCE. But we try to get a lot of those without rent and sometimes combine it with section 8 existing certificates.

Mr. FRANK. All right. Now, the question I have is this, though. We are talking about the PHA's turning over their vacancies.

Secretary PIERCE. Yes.

Mr. FRANK. Again, am I correct that this budget would reduce, in general, the funds available to PHA's?

See, what I am worried about is that you have counted the homeless, you tell me you think they are increasing.

Secretary PIERCE. Well, right now——

Mr. FRANK. Please, Mr. Secretary.

Secretary PIERCE. Right now they get paid for the vacancies.

Mr. FRANK. Yes. Are they going to be getting paid more or less, or how does your budget affect that?

Secretary PIERCE. We hope that they will get paid less. We hope that eventually we will reduce it down to a 3-percent vacancy rate for which they get paid.

Mr. FRANK. Well, that figures. So that would mean then that if you are——

Secretary PIERCE. But right at this moment they get paid.

Mr. FRANK. But if your budget is successful, then, this would be a trend away from the homeless. Again, I am trying to find out how this will be affecting the homeless.

You said——

Secretary PIERCE. Well, not——

Mr. FRANK. No, Mr. Secretary, please listen. I know this is not your favorite thing to do. You know, there are a lot—at least parts of the job you must enjoy. I wouldn't guess what they were.

Secretary PIERCE. No, I would just like to give you the facts.

Mr. FRANK. No, but I——

[Laughter.]

Mr. FRANK. Well, I guess what I am looking for——

Secretary PIERCE. You just want to put on the record what you want to say.

Mr. FRANK. Oh, no, Mr. Secretary.

Secretary PIERCE. Well, then let me talk.

Mr. FRANK. No, I will let you answer questions that I ask. I will be glad to answer questions that you want to ask me at some point.

Secretary PIERCE. I don't want to ask you questions.

Mr. FRANK. I want specifics.

Secretary PIERCE. I just want to answer the ones you are asking.

Mr. FRANK. Well, I want specifics, see. You have told me your estimate of the homeless, you think it is increasing. I have asked what seemed to be a reasonable question, which is how your budget will affect our ability to help the homeless.

Now, you say one thing is that the PHA's can rent them their vacant units, but my sense now, you are telling me is you are hoping that the PHA's will have fewer vacancies. That would mean fewer units for the homeless.

So is there anything in your budget that would increase the resources that your Department is making available to provide housing for the homeless, whom you tell us you think are increasing?

Secretary PIERCE. Well, it would only be if we got more section 8 existing certificates or more vouchers——

Mr. FRANK. Are you asking for those?

Secretary PIERCE. No, we are not.

Mr. FRANK. So in the budget as requested, it sounds to me like those resources you have enumerated as being available for the homeless, they are either staying the same or going down, and that sounds to me like we are going to have more homeless.

Secretary PIERCE. Well, not——

Mr. FRANK. CDBG is going down, you are trying to reduce the vacancy rate.

Secretary PIERCE. Well, first of all, you have got to take the overall number of the homeless. The overall number of the homeless we think is about 350,000.

Mr. FRANK. To 500,000, you said.

Secretary PIERCE. To 500,000. And there is a good chance it is going to be less. If our economy continues to improve, it will probably be less because an improved economy will reduce a certain number of them.

Mr. FRANK. Except——

Secretary PIERCE. What we have got is a relatively small number of homeless spread nationwide; and as there are substantial resources available, to assist these people, they should receive a considerable amount of help.

Mr. FRANK. Well, how do you——

Secretary PIERCE. Now, let me go further. Let me go further.

Mr. FRANK. No, I want to stop you on these specifics. I want to talk facts with you.

You say that it is going to decrease. I wish I could believe that. Unfortunately, there is reason to believe that the general prosperity doesn't necessarily do that because, you have said yourself, we had 350,000 when you did your survey, you said you think there has been maybe a 10-percent increase, but that has been during a time of prosperity.

Your own facts, of which you are very fond, unfortunately, dispute the notion that the prosperity is reducing those.

Secretary PIERCE. No, those are not my facts. That is what the PD&R people tell me maybe, they think, they don't know. They haven't done a new study.

Mr. FRANK. Oh, that is not a fact. That is a maybe, "they think, they don't know"? [Laughter.]

Well, Mr. Chairman, I don't want any more——

Secretary PIERCE. So what we know is——

Mr. FRANK. Mr. Chairman, I don't want any more "maybe," "I think," "I don't know's."

Secretary PIERCE. What we know is 350,000.

Mr. FRANK. Well, you know, Mr. Secretary, when it was not tactically unwise, you said there was a 10-percent increase. We suddenly solved the 10-percent increase in the last 5 minutes of questions.

Secretary PIERCE. No, I didn't. No, no.

Mr. FRANK. Maybe if I had another 10 minutes, we would make a substantial drop in the homeless.

Secretary PIERCE. No, no, no, no.

Mr. FRANK. Mr. Chairman, I yield back.

Secretary PIERCE. No, not at all.

Well, you didn't let me—can I tell you more about the homeless and what we are doing?

Mr. FRANK. I hope so.

Secretary PIERCE. All right, fine.

Now, the homeless problem is not just a HUD problem. It is a problem for the States, for the cities, for the local governments, and for other agencies of the Federal Government.

That is why we have an intergovernmental agency task force working on this. It is chaired by Health and Human Services, by Secretary Heckler, a citizen of your State.

Mr. FRANK. She is a constituent, right. [Laughter.]

Secretary PIERCE. Yes, a constituent.

So now you go talk to your constituent because, you see, that is our key—

Mr. FRANK. Mr. Secretary, that is harder for me to do than you might realize.

Secretary PIERCE. Wait, let me just finish. That is our key response to the homeless.

Mr. FRANK. Right, well, I guess it is—

Secretary PIERCE. Well, please.

Mr. FRANK. No, Mr. Secretary.

Secretary PIERCE. Well, please.

Mr. FRANK. No, I will tell you—

Secretary PIERCE. No. Your time is over. I am going to answer. [Gavel.]

Mr. FRANK. Mr. Chairman, I ask just for 15 seconds to say this.

I asked you what your budget is doing. Yes, I know it is a problem for other people. I have talked to other people. It sounds to me we have already run out of things you are going to tell us about what your budget is doing, and I appreciate the description of what other people are doing, but I had rather get it from them.

I am disappointed that HUD itself appears not to have given very serious consideration to increasing—

Secretary PIERCE. Well, we give—

Mr. FRANK [continuing]. Any effort toward the homeless in this budget.

Secretary PIERCE. All right. No sense. Go ahead.

Chairman GONZALEZ. If you have an additional statement in reply to the specific questions—

Secretary PIERCE. You should put it in writing; is that right? Put it in writing?

Chairman GONZALEZ. Well, you may, or if you wish now to answer—

Secretary PIERCE. I will put it in—

Chairman GONZALEZ. What HUD is doing?

Secretary PIERCE. I will put anything else we have in writing.

Chairman GONZALEZ. All right.

Secretary PIERCE. OK, that will save a lot of time.

Chairman GONZALEZ. Fine.

[As a result of the above colloquy, the following response was received for inclusion in the record:]

RESPONSE RECEIVED FROM SECRETARY PIERCE

Through quarterly reports from HUD field offices, we have calculated that about \$53 million of CDBG funds (\$33 million in FY 1983 and \$20 million in FY 1984) have been used by entitlement communities for a variety of programs of assistance to the homeless. The report for the first quarter of FY 1985 indicates that about \$10 million more CDBG funds as being used for homeless activities.

Many of the activities directly provide, or lead to provision of, shelter. For example, communities have used CDBG funds for acquisition and rehabilitation of buildings for use as emergency shelters, purchase of land on which a shelter will be built, improvements to existing shelters, and operation of shelters. The shelters assisted are designed to meet the needs of a range of groups that are part of the overall homeless population, including victims of domestic violence, runaway teenagers, released convicts, and senior citizens. We have no data on the number of persons assisted through these local programs.

CDBG funds are also used in many other ways to help the homeless. Programs of which we are aware include emergency foodbanks, clothing and energy assistance, psychological counseling and referral services, transportation to soup kitchens, housing counseling, diagnostic health centers, and detoxification centers.

While CDBG funds are often vital to the success of local efforts, they are often used in conjunction with other local public and private funds. Some of the programs are run directly by public agencies while others are operated by local or nationally recognized non-profit organizations.

HUD ACTIONS TO ASSIST THE HOMELESS

Over the past several years, the Department has taken a number of actions to encourage use of the Department's programs and resources to provide assistance for the homeless.

First, as noted above, we make available HUD-acquired single family homes for shelter use. As a result of conversations with city government officials and shelter providers, we found that the one-year lease term initially authorized by the Department for these single-family acquired properties was not long enough to justify spending the money to rehabilitate them for shelter use. We have, therefore, recently amended our policy to permit renewal of the lease for as long as the city wishes to continue to use it for shelter purposes. Twenty homes have been leased for shelter use to date.

Second, we have actively encouraged cities to use Community Development Block Grant funds to meet the needs of their homeless populations. To date, \$63.8 million in CDBG funds have been spent to address the shelter and other needs of the homeless. The funds have supported the following types of activities, provided either directly by the city or through charitable organizations:

Acquisitions and rehabilitation of buildings for conversion to emergency shelters for the homeless, including shelters for victims of domestic violence and shelters for runaway teenagers;

- Purchase of land for a shelter;
- Improvements to existing shelters;
- Operation of shelter facilities;
- Psychological counseling for the homeless;
- Housing counseling and referral services;
- Housing the homeless through acquisition and rehabilitation of a residential hotel for single room occupancy use;
- Transportation of the homeless from shelters to soup kitchens;
- Placement of homeless senior citizens with other senior citizens;
- Operation of an economic crisis center.

Third, we have published a proposed regulation to give poor families and elderly individuals who lose their homes through no fault of their own priority for admission to public housing and other assisted housing.

Fourth, to be particularly responsive to the needs of battered spouses, we intend to include them as among those eligible for priority admission to HUD-assisted housing.

Fifth, as an interim measure until the proposed regulation becomes effective, we have encouraged Public Housing Agencies (PHAs) to admit the homeless under their "emergency" priority admission category. Where a PHA does not have this

category in its admission policies, but wants to add it in order to house the homeless, the Department has pledged to work with PHA to make this change as quickly as possible.

Sixth, we are working with PHAs which have some smaller units which they are having difficulty in renting to eligible elderly families to encourage these PHAs to apply for authorization to rent these units to single non-elderly individuals who would otherwise be homeless.

Seventh, where cities have a need to use single room occupancy (SRO) housing, such as low cost residential hotels, to provide housing for homeless individuals, we have informed them that the Department will consider requests for waivers to the regulations for the Section 8 Existing Housing Program to permit assistance to be provided for this type of housing. SRO housing is now eligible for the Section 8 Moderate Rehabilitation program, the new Rental Rehabilitation program, and the new Voucher program.

Eight, the Department has asked Regional Administrators to consider keeping a portion of their fair share allocation of Section 8 certificates for Fiscal Year 1985 in reserve to support local homeless efforts. We have also retained a small reserve of certificates in the Central Office for use in emergency situations. HUD has provided 20 Section 8 certificates to a demonstration project, developed by the Salvation Army, St. Louis County, Missouri, and the local PHA, to provide assistance to the homeless.

Finally, recognizing that homelessness is not a problem of shelter alone, the Department works actively with the Federal Task Force on Homelessness, chaired by HHS, to coordinate Federal assistance for the homeless.

HUD Funding For The Homeless.

<u>Boston</u>	1. Staffing costs for night time shelter (CDBG)	100,000
	2. Day drop in center provides lunch and health counseling (CDBG)	300,000
	Total	\$400,000
<u>Milford</u>	A non-profit has contracted with a local motel to rent units for emergency housing (CDBG)	15,000
<u>New Haven</u>	1. Temporary housing for emergency shelter (CDBG)	50,000
	2. Emergency shelter for displaced families (CDBG)	424,000
	3. 12 units temporary emergency shelter (CDBG)	200,000
	Total	674,000
<u>Stamford</u>	Rehabilitation of St. Luke's emergency shelter (CDBG)	25,000
<u>Bristol</u>	1. Purchase and renovate of house for emergency shelter (CDBG)	60,000
	2. Portion of operating costs for providing shelter for homeless (CDBG)	10,000
	3. Emergency shelter (CDBG)	58,000
	Total	128,000
<u>Hartford</u>	Elderly weekend meals program (CDBG)	21,500
<u>New Britain</u>	1. Area Conference of churches-free hot meals program (CDBG)	10,000
	2. Battered women's shelter (CDBG)	10,000
	Total	20,000
<u>New London</u>	1. Covenant Shelter of New London, Inc. one half of Executive Director's salary (CDBG)	10,000
	2. Local shelter for 20 people (CDBG)	10,000
	Total	20,000
<u>Waterbury</u>	1. Soup Kitchen (CDBG)	12,000
	2. Women's emergency shelter (CDBG)	15,000
	3. Salvation Army emergency shelter (CDBG)	25,000
	4. YMCA emergency shelter (CDBG)	25,000
	5. Renovations to 1, 2 and 4 (CDBG)	34,000
	Total	111,000
<u>West Hartford</u>	YWCA counseling for temporarily displaced homemakers (CDBG)	3,000
<u>Greenwich</u>	Youth shelter for runaways (CDBG)	47,000

<u>Connecticut</u>	Total for the State (CDBG)	1,064,500
<u>New York City</u>	1. Shelters for the homeless (CDBG)	2,735,000
	2. Expansion of existing services (lodging, food and supportive care) (CDBG)	378,000
	3. Rehabilitation Henry Hudson Hotel (CDBG)	600,000
	4. Rehabilitation City owned Apartments (CDBG)	9,000,000
	5. Rehabilitation Lavenburg Homes, 107 units for the homeless (Public Housing)	5,145,000
	6. Construction of 150 units in the Bronx for the homeless (Public Housing)	9,695,000
	Total New York City	27,553,000
<u>Washington, D.C.</u>	1. Renovate facility for the homeless (CDBG)OK	7,100
	2. Rehabilitation congregate housing for the homeless (CDBG)	54,800
	Total	61,900
<u>Columbia, S.C.</u>	1. Olive Mission (CDBG)	19,800
	2. Salvation Army building (CDBG)	15,100
	3. Providence Men's Home (CDBG)	15,000
	4. Providence Family Shelter (CDBG)	30,100
	5. Sister Care (battered wives) (CDBG)	50,000
	6. Renovation of Family Shelter (CDBG)	20,000
	Total	150,000
<u>Chicago</u>	Emergency shelter for the homeless (CDBG)	675,000
<u>Cleveland</u>	1. Distribute excess food (CDBG)	100,000
	2. Salvation Army - 5 soup kitchens (CDBG)	50,000
	3. Shelter and meals for homeless (CDBG)	25,000
	Total	175,000
<u>Minnesota</u>	1. Shelter for battered women (CDBG)	157,500
	2. Central Hillside United Ministries emergency housing (CDBG)	10,000
	3. Harriet Tubman's Woman Shelter (CDBG)	105,000
	Total	272,500
<u>San Antonio</u>	None	
<u>New Orleans</u>	None	
<u>Denver</u>	None	
<u>Orange County</u>	1. Interval House (CDBG)	50,000
	2. Woman's Transitional Center (CDBG)	360,000
	3. Christian Temporary Housing Facility (CDBG)	100,000
	Total	510,000

Pittsburgh

1. Urban League counseling services (CDBG)	405,000
2. Rehabilitation shelter for battered women (CDBG)	<u>225,000</u>
Total	630,000

Philadelphia

1. Emergency shelters for chronically homeless and indigent (CDBG)	765,000
2. Family care center for homeless due to fire, domestic abuse, foreclosure, etc. (CDBG)	710,500
3. Social casework services for homeless (CDBG)	<u>390,000</u>
Total	1,865,500

2715



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF THE UNDER SECRETARY
WASHINGTON, D.C. 20410

JAN 11 1985

MEMORANDUM FOR: Regional Administrators - Regional Housing
Commissioners

FROM: Gordon D. Walker, Deputy Under Secretary for Field
Coordination, UF

SUBJECT: Housing for the Homeless

The Department remains committed to continuing its efforts to provide shelter for homeless individuals and families. The Secretary has sent a letter to the Mayors of all cities with a population over 50,000 informing them of the potential for assistance under HUD's programs. Since this is a program administered by local communities in conjunction with shelter providers, we intend to keep it fully decentralized to the HUD offices of jurisdiction. To keep you fully informed on these activities, I have attached the following information which should be distributed to all your field offices:

- o Secretary's letter to the Mayors
- o Secretary's memorandum of November 29, 1984 to associated Principal Staff
- o Fact Sheet: Efforts to Help the Homeless
- o Information Sheet: HUD New Initiatives to Help The Homeless

I would also like to re-emphasize the need to have your quarterly reports on activities within your jurisdiction on providing assistance for the homeless. This information is utilized not only in the Department, but is also sent to the Department of Health and Human Services which has the responsibility for Government-wide coordination. It has come to my attention that our list of Regional and Field Office Coordinators for the Homeless has become obsolete. Therefore, as part of your first quarter report, which is due by the fifteenth of January 1985, please include an update of these coordinators with their phone numbers.

Attachments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410

Dear Mayor:

The Department of Housing and Urban Development (HUD) remains committed to continuing its efforts to help provide shelter to the Nation's homeless.

Over the past two years, the Department has taken a number of actions to help shelter the homeless. Single-family acquired homes are available for shelter use and over \$53 million of HUD's Community Development Block Grant (CDBG) funds have been used by local governments to acquire and rehabilitate, and operate shelters and facilities. The Department is acting to expand the usefulness of HUD's programs in providing assistance for the homeless as part of the larger Federal effort coordinated by the Department of Health and Human Services' (HHS) Task Force on the Homeless. I want to inform you of the Department's initiatives in this area.

First, as a result of conversations with city government officials and shelter providers, we found that the one-year lease term for single-family HUD-acquired properties was not long enough to justify spending the money to rehabilitate them for shelter use. We have, therefore, amended our policy to permit renewal of the lease for as long as the city wishes to continue to use it for shelter purposes.

Second, we have established a clearinghouse function at our Field Offices to make available to local governments and shelter providers information regarding single-family properties which are available for shelter use. We expect this will help you to be able to use single-family HUD-acquired properties more effectively for emergency shelter.

Third, I want to remind you that CDBG funds may be used to acquire and/or rehabilitate buildings for use as shelters for the homeless. CDBG funds may be used for improvements to a building currently in use as a shelter. Local governments can undertake these activities directly, or the funds can be provided to a non-profit organization to undertake the work. As an example, the city of Birmingham, Alabama used \$45,000 of its CDBG funds to renovate an abandoned firehouse, turning it into a shelter which serves 30 to 36 men a night. An inter-denominational church group staffs the shelter.

The costs of operating a shelter are also eligible for CDBG funding as public service activity. CDBG funds can be used for any of the specific costs of running a shelter: equipment such as beds, stoves, and refrigerators; supplies such as food and blankets; utilities; and staff. However, use of funds for shelter operating costs does fall within the statutory limit (15 percent in most cases) on the use of CDBG funds for providing public services.

Fourth, we have published a proposed regulation to give poor families and elderly individuals who lose their homes through no fault of their own priority for admission to public housing and other assisted housing.

Fifth, to be particularly responsive to the needs of battered spouses, we found constituted part of the increase in the homeless population, we intend to include them as among those eligible for priority admission to public housing.

Until the proposed regulation becomes effective, the Public Housing Agency (PHA) which serves your community can admit the homeless under its "emergency" priority admission category. If the PHA does not have this category in its admission policies, but would like to add it in order to serve the homeless, the Department will work with the PHA to make this change as quickly as possible. Additionally, if the PHA has some units which it is having difficulty in renting, the Department can authorize it to rent these units to single, non-elderly homeless persons who otherwise would not be eligible to live in public housing.

Sixth, where cities have a need to use single room occupancy (SRO) housing, such as low-cost residential hotels, to provide housing for homeless individuals, we will consider requests for waivers to the regulations for the Section 8 Existing Housing Program to permit assistance to be provided for this type of housing. SRO housing is now eligible for the Section 8 Moderate Rehabilitation program, the new Rental Rehabilitation program, and the new Voucher demonstration.

Serving the homeless is a high Departmental priority. I have directed Field Office Managers to cooperate with you in any way possible in your efforts to serve the homeless in your community. The Manager of the HUD Field Office which serves your community is:

I am also enclosing a copy of a recent publication of the Department of Health and Human Services (HHS), "Helping the Homeless: A Resource Guide." The guide, which provides "how to" information for both food and shelter operations for the homeless, should prove useful to those in your community who are concerned with addressing the needs of the homeless. The guide also contains an appendix which provides information on how to obtain assistance from the Federal Government, and lists the addresses of the Regional Directors of HHS, who can help you coordinate Federal assistance.

We hope that this information and the changes we have made in our programs will prove useful to you and your efforts to assist the homeless.

Very sincerely yours,

Samuel R. Pierce, Jr.

Enclosure



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410

NOV 29 1984

MEMORANDUM FOR: Maurice L. Barksdale, Assistant Secretary for Housing-
Federal Housing Commissioner, H
John J. Knapp, General Counsel, G
Warren T. Lindquist, Assistant Secretary for Public and
Indian Housing, P
Gordon D. Walker, Deputy Under Secretary for Field
Coordination, UF

FROM: Samuel R. Pierce, Jr. 

SUBJECT: HUD Administrative Actions to Assist the Homeless

As a follow-up to the study on the homeless, I asked PD&R to provide me with recommendations on actions HUD could take to address the needs identified in the study. I have decided that the Department should move immediately to take administrative action in several areas to expand and reserve housing resources available to those who are, or are about to be, homeless, as follows:

1. Expand the use of single-family acquired properties as emergency family shelters.

In February 1983 the Department initiated a policy of offering to lease single-family acquired properties for \$1.00 to local governments or shelter providers for shelter use. Leases are limited to no more than one year, and any necessary repairs are the responsibility of the shelter providers. There has not been extensive interest in use of these properties. Interviewers for the PD&R study found that one reason these properties were not being used was that many of the available properties needed repairs to make them useable as shelters, but shelter providers were unwilling to spend the necessary funds in view of the short-term of the lease and the uncertainty about continued availability of the property for shelter use.

To remove this impediment to the use of single-family acquired properties, I have decided and the Office of Housing has agreed, that we should amend our current policy on making single-family properties in the HA general and special risk insurance funds available to cities for shelter use to allow cities to renew the lease at the end of the lease term, if they wish to continue to use the property for temporary shelter. This policy was implemented by a September 10, 1984 memorandum from Assistant Secretary Barksdale to Regional Administrators.

In addition, we should publicize the availability of these properties for shelter use through an initial outreach effort by Regional Administrators, and through the establishment of a clearinghouse function at the field offices to maintain communications with local governments and shelter providers regarding single-family acquired properties which are available for shelter use.

2. Encourage the preservation of single room occupancy (SRO) housing.

The study found that the vast majority of the homeless are single individuals. The decline in the number of low-cost hotels and rooming housing (SRO housing) in urban areas in the last decade is considered by many experts to be a contributing factor to homelessness among single individuals. The Section 8 program can be useful in preserving SRO housing.

SRO housing is now eligible for the Section 8 Moderate Rehabilitation Program, the new Rental Rehabilitation Program, and the Voucher Demonstration. The use of Section 8 Existing Certificates in SRO housing was authorized by the Housing and Urban Rural Recovery Act of 1983. Pending issuance of regulations to implement this provision, we should announce that the Department will consider requests to waive the Section 8 Existing Housing regulations to permit SRO use in cities having documented demand for this type of housing that cannot be met with the programs under which SRO housing is currently available. Appropriate rents for SROs will be established administratively when waivers are granted.

While the U.S. Housing Act generally limits the admission of single non-elderly individuals to assisted housing by providing preferences to others in admission and limiting occupancy to 15 percent of the units (30 percent in certain cases), I have the authority to waive the priorities and limits established in the Act for the Section 8 Existing Housing program and the Section 8 Moderate Rehabilitation program in connection with SRO housing. We should publicize the availability of this waiver authority by announcing that the Department will entertain requests to waive priorities and limits for admission of single persons, where necessary to use SRO housing to meet the housing needs of homeless single individuals.

3. Provide priority for admission to assisted housing for those who are, or are about to be, homeless, including battered spouses.

The Department has statutory authority to establish a preference for admission to assisted housing for income eligible families who are displaced, living in substandard housing, or paying more than 50 percent of their income, for rent.

A proposed rule affecting the Rent Supplement, Section 8 and Public Housing programs has been developed to implement these preferences. The proposed rule's definition of displacement in most cases is significantly broader than that now being used in those programs administered by PHAs to provide "emergency" admission to families who are about to lose their homes

and would help more families avoid homelessness. However, one category of the homeless who now qualify for "emergency" admission at many PHAs, victims of domestic violence, are not included in the definition of displaced in the proposed rule as written.

To assist those who might otherwise be homeless, I have decided that we should make battered spouses eligible for the displacement preference in the rule implementing statutory preferences for admission to assisted housing by expanding the definition of displacement to include persons constructively displaced because of a threat to health and safety. In order not to delay issuance of the proposed rule, the regulatory provision including battered spouses in the definition of displacee should be published as an interim provision with the final rule.

4. Expand the use of Public Housing

There is evidence that some PHAs are experiencing difficulty in marketing units for the elderly, either because of soft markets, or because the units themselves are not desirable for reasons such as design or location. Thus, there is an opportunity in some cities to use small vacant units to provide permanent housing for some single non-elderly people.

I have decided that we should:

- Reiterate the policy of allowing the rental of public housing units to single non-elderly individuals when otherwise eligible applicants are not available; and
- Issue regulations to implement the statutory authority to allow up to 30 percent of a PHAs units to be used to house single non-elderly individuals, where units are expected to be otherwise vacant for a year or more.

5. Encourage the use of CDBG funds for temporary shelter provision

The PD&R study found that there was a substantial unmet need for additional temporary shelter for the homeless. Cities may use CDBG funds to support shelter operation, either through providing funds for shelter services, or acquiring and/or rehabilitating properties for shelter use. Because it has been some time since we last reminded CDBG grantees about possible uses of CDBG funds to aid the homeless, have decided that we should again make a special effort to remind all CDBG grantees of the ways in which they can use local CDBG funds to respond to the needs of the homeless. To highlight the potential use of CDBG funding for this purpose, a Central Office coordinator should be designated to resolve any eligibility or other issues that might arise relating to the use of CDBG funds to assist the homeless.

I have asked Dr. June Koch to coordinate implementation of these decisions. Each of you should designate someone to work with her and her staff on this effort. She will be calling you soon to learn the identity of your designee, and begin the work necessary to take these actions to help the homeless.

Fact Sheet: Efforts to Help the HomelessPrivate/Public Efforts

- Vast majority of efforts to assist the homeless are being undertaken by the private sector, primarily by non-profit groups, religious organizations, and other voluntary organizations. (94% of all shelters are operated by non-profit groups; Activities include:
 - o operating emergency overnight shelters
 - o providing vouchers to pay for overnight lodging in hotels, motels and apartments
 - o operating transitional housing
 - o running food banks and food pantries
- Local governments also play a role in providing services to the homeless. According to the HUD report, 80% of local governments do at least one of the following:
 - o give money to private groups to operate shelters or provide other services;
 - o lease or rehabilitate building for private shelter providers;
 - o furnish vouchers to homeless persons for use in hotels, motels and apartments;
 - o operate shelters.
- 80 percent of these local governments rely primarily on Federal funds to assist the homeless; only by 20 percent use locally generated revenues.
- Principal Federal funds used by these local governments are:
 - o \$210 million from the Federal Emergency Management Agency for Emergency Food and Shelter (\$100 million in FY 1983 and \$110 million in FY 1984)
 - o \$53 million in HUD Community Development Block Grant Funding for shelter provision for the homeless (\$33 million in FY 1983 and \$20 million in FY 1984)
 - o \$125 million in HHS Community Services Block Grant Funds for food and shelter for the poor (\$65 million in FY 1983 and \$60 million in FY 1984).

HUD Programs

-- Preventing Homelessness

- o An additional 750,000 individuals and families have been provided housing assistance since 1980. HUD currently provides housing for over 4 million families.
- o The Department has published a proposed rule to give poor families and elderly individuals who lose their homes through no fault of their own priority for admission to assisted housing.
- o Single Room Occupancy (SRO) Housing, such as low-cost residential hotels, an important housing resource for low-income individuals, has been made eligible for the Section 8 Moderate Rehabilitation Program, the new Rental Rehabilitation program, and the Voucher Demonstration.
- o Shared Housing

-- Providing Shelter for the Homeless

- o Cities have used \$53 million in HUD CDBG funds to provide shelter for the homeless

Example:

- The City of Birmingham, Alabama, used \$45,000 of its CDBG funds to renovate an abandoned firehouse, turning it into a shelter which serves 30 to 36 men nightly.
 - o HUD leases Single-Family Acquired Houses to cities to provide shelter for homeless families.
- Example:
- In Memphis, Tennessee, 10 HUD-owned homes are being used by the Memphis Inter-Faith Association to provide temporary housing for displaced families, enabling families to live together in times of crisis while they seek more permanent housing.
 - o Some Public Housing Agencies are actively moving to provide housing for the homeless.

Examples:

- The New York City Housing Authority has received a HUD Funding Reservation of \$9 million in public housing development funds for 150 units of housing for the homeless. Construction is expected to begin next year.
- The New York City Authority is completing reconstruction of Lavenburg Houses, a project exclusively for the homeless. It will contain 107 units. HUD funding for this project is \$5,145,000.

Other Federal Efforts--Interagency Task Force

- HUD participates in Interagency Task Force headed by HHS which works with local governments and the private sector to help local groups obtain unused Federal buildings, food, equipment and supplies.
- The major task force achievements include:
 - o certification of 1323 food banks to obtain food from 197 military commissaries; eighteen of them received 100,000 pounds of food from January to April 1984.
 - o helping in the establishment of a shelter in Washington, DC.
 - o providing technical assistance to projects such as an innovative shelter financing program in St. Louis, Missouri.
 - o preparing a "how-to-do-it" guide for local groups, based on a workshop for operators of 30 successful projects.
 - o working with the Department of Defense to make unused military facilities available for shelter use. For example a former barracks in Forest Glenn, Maryland, was made available by the Army to the local government to provide shelter for 20 homeless men. By the end of November, six shelters were operating on military installations.

6. Encourage the use of CDBG funds for temporary shelter provision by:
 - a. making a special effort to inform CDBG grantees about possible uses of CDBG funds to aid the homeless; and
 - b. designating a headquarters coordinator in Washington, D.C. to resolve any eligibility or other issues which might arise relating to the use of CDBG funds to assist the homeless.

Information Sheet: HUD New Initiatives to Help the Homeless

A series of new initiatives to help the homeless was recently announced by Secretary Pierce. These initiatives will complement steps already taken by the Department to make shelter available for homeless individuals. By memorandum of November 29, 1984, the Secretary directed the Department to take action to:

1. Expand the use of single-family acquired properties as emergency shelters by:
 - a. Permitting extension of the lease beyond the initial one year term, to encourage cities and shelter providers to spend the money necessary to rehabilitate the properties, and
 - b. establishing a clearinghouse function at HUD Field Offices to make available to local governments and shelter providers information regarding single-family properties available for shelter use.
2. Encourage the preservation of single room occupancy (SRO) housing by:
 - a. considering requests for waivers to the Section 8 Existing Housing regulations to permit SRO use in cities having a demand for this type of housing, that cannot be met with other programs, and
 - b. reemphasizing the fact that SRO housing is now eligible under the Section 8 Moderate Rehabilitation program, the new Rental Rehabilitation program, and the Voucher demonstration.
3. Provide priority for admission to public and assisted housing to poor families and elderly individuals who lose their homes through no fault of their own.
4. Make battered spouses, who constitute part of the increase in the homeless population, eligible for a priority for admission to HUD-assisted housing.
5. Expand the use of public housing by:
 - a. reiterating the policy of allowing the rental of public housing units to single non-elderly individuals when otherwise eligible applicants are not available; and
 - b. issuing regulations to allow up to 30 percent of a PHAs units to be used to house single non-elderly individuals, where units are expected to be otherwise vacant for a year or more.

NOV 29 1984

MEMORANDUM FOR: All Regional Administrators

FROM: Maurice L. Barksdale, Assistant Secretary for Housing-Federal
Housing Commissioner, H 151

SUBJECT: Section 8 Existing Certificates for the Homeless

Providing housing assistance for the homeless in America continues to be a major concern, with many agencies and local organizations working independently to help solve this problem.

As part of HUD's continuing efforts to provide assistance to the homeless, I am requesting that each Region consider keeping a portion of their fair share allocation of Section 8 Existing certificates for Fiscal Year 1985 in reserve to support local homeless efforts. Your Regional homeless coordinator as well as the local field offices should be encouraged to maintain contact with the cities, local non-profit organizations and homeless groups who are directly involved to see if such assistance would be beneficial to their ongoing efforts to assist the homeless.

In addition to the Section 8 certificates you set aside for this purpose, we are keeping a small reserve here in the Central Office for use in emergency situations or if the certificates you have reserved are insufficient to meet a particular need.

ADDRESSEES:

Region I
Region II
Region III
Region IV
Region V
Region VI
Region VII
Region VIII
Region IX
Region X

2729

SEP 10 1934

MEMORANDUM FOR: ALL REGIONAL ADMINISTRATORS

FROM: Maurice Barkdale, Assistant Secretary for Housing-Federal Housing
Commissioner. U. S. H. S.

SUBJECT: Use of HUD-held Properties for the Homeless

Last year Secretary Pierce instructed Regional Administrators to play an active role in identifying and making available a number of HUD-held single-family properties for communities with programs to aid the homeless. As a result, several properties were leased to mayors and/or local organizations for a nominal fee of \$1 per year.

A number of the initial leases on these properties are scheduled to expire in the near future. This memorandum authorizes the field offices to renegotiate an extension of the lease on properties already in use should the communities want to continue their programs for the homeless. The leasing of HUD-held properties, in combination with local public and private sector initiatives, has proven successful in the participating communities. These efforts deserve continuing Departmental support.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

SEP 9 1983

MEMORANDUM FOR: All Regional Administrators

ATTENTION: All Regional Housing Directors
All Regional CPD Directors

FROM: Gordon Walker, Deputy Under Secretary for Field
Coordination, UF

Stephen J. Bollinger, Assistant Secretary for Community
Planning and Development, C

Philip Abrams, Assistant Secretary for Housing-Federal
Housing Commissioner, H

SUBJECT: New Quarterly Report on Housing and CDBG-Funded
Assistance for the Homeless

Providing housing and assistance for the homeless is a serious problem in many American cities. Meeting these needs is a major Federal, State and local governmental initiative. The White House Office on Private Sector Initiatives, HUD and other Federal Departments, and the National Citizens Committee on Food and Shelter are all working independently to solve this problem.

Most of the decisions on HUD CDBG and Housing programs which directly affect the homeless are made by local governments and are not presently reported. Therefore, in order to improve HUD and Federal reporting and coordination of this problem, we are requesting a quarterly report from you on activities relating to meeting the needs of the homeless. This should include use of CDBG funds, single family leasing, and a summary of any other local activities which could lead to further HUD action.

Attached is a draft format for your use. For the CDBG section of the report, please provide city- or county-specific information regarding the kind of activities being undertaken and the amount of CDBG and other resources involved.

For the housing section of the report, please list any single family homes made available to units of local government for making temporary shelter available for the homeless. As you know, this includes any available unit which was originally insured under the General Insurance or Special Risk Fund. Your report should include the property listing, the date of lease, and the approximate number of homeless to be housed. You should also note any cities which are currently negotiating leases which have not yet reached fruition.

The first report should cover FY 1983. Subsequent reports need only update and add to other information previously reported and are due the end of each quarter. Please send the first report to Gordon Walker by September 30, 1983. It will be disseminated to HUD Headquarters Offices as well as other Federal Departments working on homeless issues. The information for the report should be gathered from the regular contacts your field staff has with grantees by phone, in meetings, and on field visits. You should request your staff to make special phone calls to cities to keep us informed of assistance to the homeless.

If you have any questions, please contact Barry Rieberman at 755-6963. Thank you for your cooperation.

Attachment

SUGGESTED FORMAT

CDBG-FUNDED ASSISTANCE TO THE HOMELESS

City/County	Activity Description	Amount of CDBG Funds	Other Funding	Comments

SINGLE FAMILY ASSISTANCE TO THE HOMELESS

City/County	Lease* Date	Property Listing	Approximate No. of Homeless to be Assisted	Comments
*Enter UN if under negotiation				

OTHER ASSISTANCE TO THE HOMELESS

City/County	Activity Description	Funding Amount	Source	Local Contact (Name, Address, Phone)



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

14

(FEB 14, 1983)

MEMORANDUM FOR: Regional Administrators

SUBJECT : Additional Guidance on Leasing Acquired Properties for Use as Shelter for the Homeless

You are authorized to make certain vacant single-family acquired properties available to units of local government or interested charitable or religious organizations for making temporary shelter available for the homeless. The properties that HUD can make available for this purpose include any available unit which was originally insured under the General Insurance or Special Risk Insurance Funds (area and service offices have already been requested to provide you an estimate of properties that can be used for this purpose.)

The following guidance is provided concerning guidelines you should follow in working with the local bodies/organizations which wish to lease our properties for housing the homeless:

- (1) Available properties shall be any vacant property not under contract of sale, listed for sale, or unconditionally committed to other programs, such as Urban Homesteading.
- (2) Leases may be negotiated for such terms as the recipient wishes up to one year. Any of the properties desired by the recipient shall be available; however, repairs, utility service, etc. shall be the responsibility of the recipient.
- (3) Leasees shall make a nominal payment of \$1 for the term of the lease.
- (4) Hazard and general liability insurance shall be the responsibility of the recipient organization.

A model lease for use in this effort to make HUD-owner properties available to assist communities in housing the homeless will be provided to your office. If you require further assistance in your efforts to assist these organizations please contact the Office of the Deputy Under Secretary for Intergovernmental Relations.

Samuel R. Pierce, Jr.
Samuel R. Pierce, Jr.



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

SEP 14 1983 (PFB 14, 1983)

MEMORANDUM TO: ALL REGIONAL ADMINISTRATORS

SUBJECT: HUD Assistance for the Homeless

The number of homeless individuals and families is a growing local problem in these difficult times of economic transition. The President made special mention of this problem in his State of the Union message. I am therefore authorizing HUD to marshal existing programs to aid the homeless.

You are hereby instructed to cooperate fully in expediting the use of Community Development Block Grant funds, as described below, to meet the needs of the homeless as identified by local communities.

You are also instructed to provide aid and information, as indicated below, to enable states and local communities to assist private charitable groups in making the most effective use of available empty housing units under HUD control.

USE OF CDBG FUNDS TO AID THE HOMELESS

1. Expedite approval of an earlier start for the FY'83 CDBG program year when a grantee requests it.

Some grantees may not have any funds currently available to undertake activities to aid the homeless. They would normally have to wait until Fiscal Year 1983 funds are provided when their next program year begins. Where FY 83 funds are needed to aid the homeless, grantees should be advised that HUD will expedite approval of any change in program year start dates in order to make these funds rapidly available.

2. Remind all CDBG Entitlement Grantees about the following possible uses of CDBG Funds to aid the homeless.

Acquisition and rehabilitation

The acquisition and/or rehabilitation of real property for use as a shelter for homeless is an eligible use of CDBG funds. Buildings currently vacant, such as surplus schools, could be acquired and remodeled. A building currently in use as a shelter may need improvements in order to meet the growing demand. The city or county can undertake these activities directly or the funds can be provided to a nonprofit organization. Construction of a shelter is not permitted, except under the special provision in the regulation at 24 CFR 570.204(c)(4).

Public Service

The operating cost of a shelter for the homeless is an eligible public service activity. CDBG funds can be used for any of the specific costs of running a shelter as a public service including equipment (beds, stoves, refrigerators, etc.), supplies (food, sheets, blankets, etc.), utilities, or staff. Under the 1981 amendments to the Act, there are no longer any geographic limitations on service areas. However, two limitations apply to public service activities. First, the service must be a new service or an increased level of service compared to the service provided by the locality from State or local funds in the previous 12 months. Second, each grantee is limited to 10% of its grant for public services, unless the grantee qualifies for a waiver. Grantees that qualify for a waiver must, however, reduce their level of public services to 10% by FY 1985. We are continuing to follow the same procedures for public service waivers used during FY 1982.

Compliance with the Primary Objective

It is obvious that families and individuals who are homeless generally have little or no current income. Therefore, you may inform grantees that any activity that provides assistance to the homeless will be considered to benefit low and moderate income persons and therefore will comply with the primary objectives of the Act.

Coordinate with local Voluntary and Charitable Organizations

In many communities, there are existing community, voluntary and charitable organizations which aid the homeless. In a true public/private partnership, CDBG funds can be used to augment and help leverage these funds.

3. Indicate to all States who operate the non-entitlement small cities program that they can use their funds to aid the homeless

States now have the responsibility for distributing funds in non-entitled areas of most States. While we should continue to respect the authority of States to determine how funds are used, it is appropriate to advise the States that CDBG funds can be used to aid the homeless.

I realize that cities, counties, and States face difficult choices in how to use their CDBG funds when so many diverse needs exist. In spite of these competing demands, many communities have already initiated CDBG and locally funded efforts to help homeless people, often in conjunction with private organizations and institutions.

HOUSING

1. Coordinate with Mayors/local organizations on the leasing of HUD held single-family homes

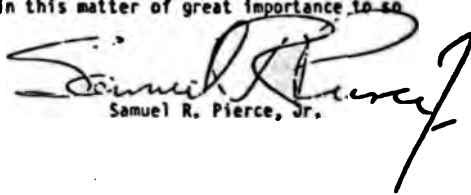
In keeping with the Administration's belief in public/private partnership, and by working through local governments and charitable organizations, we are prepared to make available specified HUD-held single-family properties in response to the needs of communities' homeless families.

You are authorized to lease, to the mayor and/or local organizations, single-family houses in the HUD-held inventory which are in either the Special Risk or General Insurance fund. Detailed procedures and leasing provisions are explained in the accompanying guidance.

2. Remind PHAs that they can house the homeless

In your communication with Public Housing Authorities, you should remind them that they may house the homeless under their "emergency" priority-admission category. If PHAs do not have this category in their admission policies, but would like to add it in order to house the homeless, you should instruct the area office to work with the PHAs to make these necessary changes as quickly as possible.

I appreciate your cooperation in this matter of great importance to so many of our fellow citizens.


Samuel R. Pierce, Jr.

Chairman GONZALEZ. Mr. Ridge.

Mr. RIDGE. Thank you, Mr. Chairman.

Mr. Secretary, some of my colleagues have expressed some concern about the voucher system and the speed or the lack of speed with which it has been implemented.

The gentleman from New York talked about being in attendance in 1981, when the voucher system was suggested by you, and I note in your remarks on page 4 you highlight that one of the programs you are looking forward to bringing back to us is a permanent Voucher Program.

In response to the questions from one of my other colleagues, you said that part of the problem HUD has encountered in trying to promote the Voucher Program was created by Congress. I wonder if you could enlighten me as to what legislative impediments you refer when you say that is part of the reason for the delay.

Secretary PIERCE. Well, I will tell you what, let me have the lady who is responsible for implementing this program give you the answer in detail.

Ms. OAKAR. Mr. Chairman? Will you yield for a second?

Mr. RIDGE. Yes.

Chairman GONZALEZ. Yes, Ms. Oakar.

Ms. OAKAR. Mr. Chairman, I think that we asked the Secretary of HUD to come before us. The most simplistic questioning, he is not able to give the answer.

Why do we need his staff here——

Mr. RIDGE. Will the gentle lady from——

Chairman GONZALEZ. Excuse me.

Mr. RIDGE. Will you withhold?

Chairman GONZALEZ. Please, both withhold.

We recognize Mr. Ridge because, Ms. Oakar, it has been sort of discretionary with the chairman to allow witnesses that we have invited to have access to whatever aids are available, and there is nothing improper in that.

But if there is any specific reason why we shouldn't, I want to hear it, but I haven't.

So, Mr. Ridge.

Mr. RIDGE. I would be happy to have your assistant enlighten us.

Chairman GONZALEZ. If you would please identify yourself, your name, your title?

Ms. KOCH. Yes. I am June Koch, Assistant Secretary for Policy Development and Research.

What Secretary Pierce was alluding to is that the legislation—we did indeed suggest and ask for vouchers in 1981. We did not get it actually till much—like 2 years later, and the legislation did not give us what we requested, which was a full-scale operational program.

If you have an operational program, you can get it out more quickly. What the legislation gave us was vouchers attached to two programs, rental rehabilitation, which was a new program that had to be designed, and then the funds actually allocated and the buildings rehabilitated, and then the vouchers then used.

That takes a good while. Those vouchers will be used in April.

The other program we got, which my division runs, is a demonstration, a demonstration that was fairly elaborate in its request

that we match how vouchers work in relation to the existing section 8 certificate.

Taking that very seriously, we designed the demonstration, and that takes time. We then advertised for a contractor. That is a whole procedural process that takes close to a year selecting the contractor. We had to issue a NOFA to the housing authorities who wanted to be part of this demonstration. Over 400 applications came in and had to be reviewed.

The actual design and whole procedure and completion of a demonstration is at least a year. That is now complete, the contractor selected. They are working with the 20 cities who are part of the demonstration and are beginning to give them the kind of technical assistance they need, and those vouchers will be out in April.

So there was no real delay. It was the process we had to undergo that put us through about a year and a half.

Mr. RIDGE. Thank you very much for your explanation.

Mr. Secretary, I noted also in the course of your testimony that somewhere between \$3½ to \$4 billion which had previously been appropriated for modernization remained available for present and future use. I would like to ask you a couple questions about the Modernization Program.

Have you had an opportunity to assess the reasons for the delay, both internally in HUD or working with PHA's, to determine why we have almost \$4 billion of unused authorization funds and, if you have, would you share them with us?

Secretary PIERCE. Yes. Basically, the reason we have this money is that it takes time for the PHA's to make their applications. They have to justify what they want and so forth. We inspect their operations and make them use reasonable judgment in what they're doing. In the process they haven't used up all of the available money. They haven't needed all of this money, that's what it really comes down to.

Mr. RIDGE. So, it is your belief that there is not a need for modernization money and based on that assessment—

Secretary PIERCE. There will be in the time we say; but there won't be in this next year.

Mr. RIDGE. Looking at what you propose to do this year or next year, and you talk about only a limited amount of modernization money, \$175 million—

Secretary PIERCE. That's for emergencies. That's emergency money. But there will be modernization money which we haven't used in 1985, \$847 million, which we will be using in 1986.

Mr. RIDGE. Then you would subscribe to a theory that at some point we have built a tremendous stock of housing and probably under more favorable financial terms than we would be able to build it now and that it would be in the best of interest of Congress to concentrate on saving that stock of existing housing; is that correct?

Secretary PIERCE. Yes, we want to save the stock of existing housing. We want to modernize, rehabilitate, and improve what we have got.

Mr. RIDGE. And you are satisfied that the \$4 billion that has not been used for modernization is due to an absence of need?

Secretary PIERCE. \$3 billion, I believe.

Mr. RIDGE. \$3 billion. That there is no need to use those funds for modernizing that stock?

Secretary PIERCE. No, it will be used. We have enough for right now. In the future, we'll come back and ask for more money.

Mr. RIDGE. Thank you, Mr. Secretary.

Chairman GONZALEZ. Mr. Kanjorski?

Mr. KANJORSKI. Mr. Secretary, I come from northeastern Pennsylvania, and I'm from one of those congressional districts that the President refers to as a "pocket of poverty" and he recognizes an area of the country that hasn't benefited from the economic recovery.

And I read your statements on the Federal enterprise zone as still something of a priority. How long has that been a priority?

Secretary PIERCE. It's been a priority now for about 3 years. We got it through the Senate twice; we've never been able to get it through the House.

Mr. KANJORSKI. How long do you anticipate it will take to accomplish that priority?

Secretary PIERCE. We hope to get it done this year. We're working very hard on it and if we get the House to go along with us we'd be through in a minute.

Mr. KANJORSKI. Mr. Secretary, I see that you're attempting to take advantages of certain Federal tax relief for these industries. Have you had a comparison done to the Kemp bill or the Gephardt bill or the Regan proposal, as to whether or not the theory of the enterprise zone at this point would be inconsistent with the goal of tax simplification?

Secretary PIERCE. We have studied those tax proposals, talked with the people who wrote them, and so forth. We do not think those proposals should prevent the enterprise zone legislation from being enacted. We want to give certain tax and regulatory incentives to businesses to attract them into economically depressed areas. We want to have those provisions in the enterprise zone bill even if there are changes in the Tax Code for other people.

Mr. KANJORSKI. In other words, once the Congress were to take all the time it's necessary to simplify and provide fairness in the Tax Code, you think the Federal enterprise zone proposal is of such a compelling priority, that it will preempt that fairness—

Secretary PIERCE. We want to give those breaks to businessmen who will go into those areas, yes.

Mr. KANJORSKI. OK. And you have the same optimistic—

Secretary PIERCE. Just like we have IDB's, where we say, even if you get rid of IDB's generally, they will still be used in the enterprise zones—

Mr. KANJORSKI. And we can say that you're—

Secretary PIERCE. And that was thought over, and decided at the time we submitted the bill, even though there was a move afoot in the administration to get rid of IDB's.

Mr. KANJORSKI. And could I represent to my constituents that the Secretary of HUD is optimistic that he is going to overcome the fairness and simplification proposals of even this administration?

Secretary PIERCE. We're not overcoming the fairness and simplification proposals. Those proposals and the enterprise zone bill are two separate and distinct pieces of legislation.

Mr. KANJORSKI. These will be exceptions under the tax——

Secretary PIERCE. These are exceptions, exactly right.

Mr. KANJORSKI. And that you're so optimistic that you think that in spite of the fact——

Secretary PIERCE. That's what I believe so far, I mean, I've talked to Jim Baker, who is working on an administration proposal, which is much like the Kemp and the other bills that have been presented, but the enterprise zone bill is an exception—legislation that is separate and distinct from the Tax Code.

Mr. KANJORSKI. OK, now——

Secretary PIERCE. And that's the way we're going.

Mr. KANJORSKI. OK, Mr. Secretary there are several programs that have helped my area, such as the Community of Development Block Grant Program, which you're suggesting we cut by 10 percent. In addition, we have significantly been helped by the UDAG Program, which you propose to eliminate. And we have also been——

Secretary PIERCE. I don't propose it. The administration proposes it.

Mr. KANJORSKI. All right. Then you are in disagreement with the administration?

Secretary PIERCE. No, I won't say that, but I mean—we had——

Mr. KANJORSKI. You agree with the administration.

Secretary PIERCE. I agree with the administration.

Mr. KANJORSKI. I have to tell my constituents, Mr. Secretary, are you with us or against us?

Secretary PIERCE. I agree with the administration.

Mr. KANJORSKI. You are opposed to UDAG at this point. How about EDA and the Appalachian Regional Commission?

Secretary PIERCE. Well, they're not in my bailiwick.

Mr. KANJORSKI. I know, but you also know that the administration is proposing the elimination of these economic programs?

Secretary PIERCE. Yes.

Mr. KANJORSKI. OK. My question is this, Mr. Secretary.

Even in spite of your optimism, we have to recognize that the Federal enterprise zone proposal hasn't been enacted in 3 years, and yet you're proposing to do away with that little safety net that UDAG, EDA, Appalachian Regional Commission represent. What are areas like mine in pockets of poverty supposed to do, in the meantime, for existence?

Secretary PIERCE. Well, you will still be getting some money. Let's just take, for example, the UDAG situation. A lot of the UDAG money was placed on loan to the private sector and money will be coming back in as the loans are repaid. As a matter of fact, by 19—I think by the end of 1985, one-quarter of the amount of money that they're getting now each year will be coming back through the loans that they made since the time the UDAG legislation has been in existence. By 1988, it's going to be one-half, so they——

Mr. KANJORSKI. Mr. Secretary—I don't want to cut you off, Mr. Secretary, but that's a national statistic.

Secretary PIERCE. Yes.

Mr. KANJORSKI. And I want to tell you that when we grant UDAG's in our area sometimes we don't begin repayment for 10

years because it's so difficult to attract industry. So when you look at national statistics, as this administration applies revenue sharing national statistics, they really have no germaine effect on areas of pockets of poverty. And maybe that's the point I'm trying to make if you would carry the message to the White House and to your own Department.

When you're examining these programs, I would appreciate it if your staff and yourself and those people in the White House that are proposing to eliminate these programs, start to forget about national statistics and national views, and start looking at these cuts that are affecting pockets of poverty areas such as mine, to see how detrimental they are when actually applied. We need your help.

I'm not being an advocate against you, Mr. Secretary. I'm suggesting that I will do anything to assist you or the administration to remove from the economic horizon of the United States pockets of poverty that have not participated in the recovery of America, and that we've got to recognize that something special has to be done. And I'm on the other side of the aisle but I'm telling you that you'll have a fine advocate to do something positive to get these programs together.

But I'd like your assistance and rather than telling us that we hope the Federal enterprise zone will come into place, take out the balance of the effect of those misusing programs, that we have a balance and we wait, and if we can't get the Federal enterprise zone in place in time that will, in effect, help us, then don't take the safety net away from us. And let's try and cooperate in that effort if we can.

Thank you, Mr. Secretary.

Chairman GONZALEZ. Did you have a comment, Mr. Pierce?

Mr. Bartlett.

Mr. BARTLETT. Thank you, Mr. Chairman.

Mr. Chairman, I suppose it's about halfway through the hearing and I'd like to take the opportunity to commend the chairman for the fair way in which he's conducted this hearing. We have enormous disagreements, I think, on many of these programs, but I particularly appreciate his fair and evenhanded manner in conducting this hearing.

Chairman GONZALEZ. I must confess, it's been very difficult. [Laughter.]

Mr. BARTLETT. I'll just leave it at that, Mr. Chairman.

It's sometimes difficult for all of us with what we hear in these hearings.

Mr. Secretary, I have to say that I read your testimony and heard it and understood it and commend you for it, and for your proposals this year. I think you've offered some very straightforward proposals. I don't think everyone in Congress or anywhere is going to agree with every single one of them but I think, by and large, you have placed the emphasis where it needs to be. That is, to advocate helping people as opposed to subsidize what we call units or bricks and mortar. You measure your programs not by the number of dollars you can spend or the number of units of new construction, but by how many people that you can help. As you said, even with the moratorium on new construction, you'd be adding some 200,000 new units.

I think it's come to the point in the 1980's when Congress, in particular, is faced with the task of prioritizing which parts of the Federal Government are better than others and making some choice. Because the No. 1 choice we have to make—in the area of housing—is how to reduce the deficit so as to reduce interest rates and therefore increase the incidents of homeownership for low-income families. And so I think that's, in essence, what you're advocating with some of these choices.

Now, some of the choices will and should involve the termination of programs. It's time that Congress begins to decide which are the higher priority and which are the lower priority programs.

You mention and recommend the elimination of HoDAG so those resources can be used elsewhere. It seems to me HoDAG was an idea whose time has never come, as you said, \$76,000 per unit for new construction of low-income housing. Elimination of UDAG, perhaps a program whose time has come also. There were some UDAG projects that did help but whose time is passed, and there were some that were used to build convention hotels and sometimes, as my colleague from Minnesota said, to relocate from one section of the country to the other. The time has come to eliminate the new construction of section 8, which is a program that for the same amount of money we could assist some four or five times as many people.

Mr. Secretary, my question is in the area of your proposals for some major reforms, which I think have been in too many ways ignored. I hope they won't be, and I hope that the people on the other side of the aisle—I know many of them will and have—will consider the reforms that you've suggested in public housing, so that we find ways to improve public housing and not always seek that illusive goal as to how to build more and to make more mistakes, but to implement a reform process.

As I understand your reforms, you have two goals: No. 1, to return local control back to the cities and back to the public housing authority, and go to a certification-type of process instead of an application process, with all the hoops and hurdles and whistles and bells.

And second, to assure that reliability of funding for rehabilitation over the long term, so a public housing authority can make its plans.

I do think that it will require some additional modernization funds. I think that you're doing it correctly. We ought to begin with the reforms for the use of those funds but, at some point we have a large number of units in this country that we've made mistakes with and that the rehabilitation and modernization—many in my own city—will have to be accomplished by some funds. Perhaps a 1-year breather makes some sense. I don't think so, but I think Congress ought to look at that fairly.

Could you tell us at what point in the process your public housing reforms, in terms of their reliability and the local control are, and when we might expect to see a full-blown package?

Secretary PIERCE. Well, we're working on them right now. We would expect to have them up in the next 2 months for consideration by your committee, and by the Senate committee, too.

Mr. BARTLETT. Mr. Secretary, I look forward to working with you and I know that members on both sides of the aisle of this committee look forward to looking at some ways to improve the rehabilitation process of public housing and not just simply continue to make more of the old mistakes.

On the Voucher Program, Mr. Secretary, it seems to me that's the program that provides for a freedom of choice for low-income families that they have never had before. I wonder if you could—for the record and at a later time—send us, in writing, some of the proposals and some of the ways that you've discovered that the Voucher Program could be simplified and could be made to work, some of the restrictions that Congress had imposed, mistakenly, in the Voucher Program and if you could advocate some of the improvements that we could make. And perhaps we can include that—or at least try—in the housing reauthorization, to improve the Voucher Program as we make it permanent.

Secretary PIERCE. All right, we will supply that information.

[At the request of Congressman Bartlett, the following additional information was submitted for inclusion in the record by Secretary Pierce:]

RESPONSE RECEIVED FROM SECRETARY PIERCE

The Department is proposing, in its FY 1986 legislative package, that the Housing Voucher program be instituted as a permanent, rather than a demonstration, program. We are not proposing any changes in the basic structure of the program. As Assistant Secretary Koch pointed out, the delays have been largely due to the implementation of the demonstration aspects of the program, as well as the coordination of Housing Vouchers with the new Rental Rehabilitation program. Those delays are now largely behind us. When the evaluation of the demonstration is completed, it is possible that some areas where change is needed will be identified. For the present, we are implementing the program as enacted by Congress and we are confident that it will be successful.

Mr. BARTLETT. Thank you, Mr. Secretary, and just one last question very quickly.

I would hope that we could also find some ways to convert the success of the Tenant Management Program which HUD was so successful with at Kenilworth—we've heard testimony from Kimi Gray—to convert that into more tenant management and I would hope we would also advocate a tenant right to buy, to convert to homeownership for low income.

Secretary PIERCE. We intend to continue our efforts to enable public housing tenants to purchase their units and to encourage other housing authorities to support tenant management initiatives similar to those demonstrated at the Kenilworth/Parkside development in Washington, DC. As you know, the resident management group at Kenilworth has undertaken such activities as providing job training and referral, tutoring, day care, and family counseling in addition to traditional management responsibilities. I might add that there are already a number of resident management groups in other cities that are successfully working with their housing authorities to provide tenant services and other types of project management support such as maintenance and rent collection.

We are currently in the process of drafting a regulation that will explicitly authorize and encourage PHA's to contract with qualified resident groups for project management functions.

Mr. BARTLETT. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Bartlett.

Mr. Morrison, I apologize for having overlooked you before, but we'll make up for it and be liberal in the time allotted.

Mr. MORRISON. Thank you, Mr. Chairman.

We keep working on the pecking order here. It's a long process.

Mr. Secretary, I'm just following on the gentleman from Texas' question about the UDAG's. I think he somewhat misstated what you've told us in your testimony in that—as I understand it—if you had your way, personally, you'd be perfectly pleased to have that program to administer in the future. And I just hope that the committee and the Congress will give you your wish rather than what the administration has imposed on you.

But the important thing that you said earlier in your testimony, was that the administration had proposed its priorities and obviously now it was time for Congress to act. My concern is whether when Congress establishes those priorities, we can count on you and the others at HUD to carry out our decisions.

In November 1983, we passed a reauthorized of the Section 235 Program. And we included in that legislation significant changes in the applicability of that program to two- and three-family residences. And it's now 1985—March 1985. As far as I know, your Department has not even issued proposed regulations to implement those changes.

Can you explain to me why there's been that kind of delay?

Secretary PIERCE. I don't think that—I can never find reasons for delays in regulations that go on for an exorbitant amount of time. I'd like to talk with the people who have been working on those regulations for just a moment.

[Pause.]

Secretary PIERCE. Well, as I understand it, they have gotten out the regulations on the three bedrooms. It's only the one with the four bedrooms that they haven't gotten out yet. And they say they're working on that. So, up to three bedrooms, they've gotten out.

Mr. MORRISON. I don't—you are saying that you have published proposed regulations for two and three family, the expansion for rehabilitation?

Secretary PIERCE. That's what I am told.

Mr. MORRISON. What issue of the Federal Register are those published in?

[Pause.]

Secretary PIERCE. Well, I misunderstood. They said that they have not published the regulations as yet and they're still working on them. And they said it just took them that much time. And I agree with you, I don't like this either.

Mr. MORRISON. Well, Mr. Secretary, can you give us a commitment when you're going to publish these proposed regulations?

[Pause.]

Chairman GONZALEZ. Will you yield to me?

Mr. MORRISON. Certainly, Mr. Chairman.

Secretary PIERCE. I am told—I am told that it will be this year. I would hope so. [Laughter.]

But I'm going to say this. Regulations are not easy and they go through one tremendous amount of time, but this is, and I agree, too long.

Chairman GONZALEZ. Will your assistant identify herself, and your title?

Ms. McVAY WISEMAN. Yes, sir, my name is Shirley McVay Wiseman, and I'm the General Deputy Assistant Secretary for Housing.

Mr. MORRISON. Well, I want to pursue this section 235 matter a little further, if I might. First, continuing on the question of regulations, last August, \$150 million in new authority was appropriated for the implementation of this program. And your Department has consistently taken the position that it will not fund the expanded eligibility for two- and three-family units that is in the statute.

Now, Mr. Secretary, I know you're an attorney. And I know you know that a statute takes precedence over any regulation. And I wonder how it is you can explain that the Department has ignored the specific nondiscrimination provisions in the statute which say: "You cannot deny funding for 235 authority on the basis that it is for two- or three-family units, or it's for a substantial rehabilitation rather than new construction."

Secretary PIERCE. Well, I don't believe they have denied it.

Mr. MORRISON. Well, I have your own notice on this which says that it cannot be applied to these units, however, because regulations must be developed for a program—

Secretary PIERCE. I understand you have to have a publication before you can do it. You have to publish the regulation.

Mr. MORRISON. I think not, Mr. Secretary. I think that there is a statute that instructs the Department not to discriminate on a certain basis. And your failure to issue regulations does not excuse failure to apply the statute as written.

Secretary PIERCE. Well, let me talk to my general counsel about it.

[Pause.]

Chairman GONZALEZ. Mr. Knapp. I know the gentleman's name, so Mr. Knapp is the chief counsel for HUD.

Secretary PIERCE. General counsel, John Knapp.

Chairman GONZALEZ. General counsel.

Mr. KNAPP. John Knapp, general counsel of the Department. I don't have a familiarity at the moment, a recollection of the specific provisions that Mr. Morrison is speaking of, whether the statutory provision is really phrased in that kind of an absolute way of nondiscrimination as opposed to an authorization to fund up to those—I can only say, Mr. Morrison, I will look at it and respond to you.

Mr. MORRISON. Well, I'd appreciate that and I'd appreciate it be done promptly because we've been asking about this since the money was appropriated. The money was supposed to be issued within 30 days. And it is a matter of great concern to me as the author of some of the new provisions. The new provisions are what allowed us to convince the Appropriations Committee that this program was worth trying again and they are exactly what the Department is not implementing. That is what I meant at the begin-

ning when I said I had a concern about whether or not we were going to have our priorities carried out.

[At the request of Congressman Morrison, the following additional information was submitted for inclusion in the record by Mr. Knapp:]

RESPONSE RECEIVED FROM MR. KNAPP

The statute is written as you described. It provides that the Secretary "may not deny insurance on the basis that a mortgage involves a two- to three-family dwelling or is to be used to finance substantial rehabilitation rather than new construction."

That provision obviously does not remove the right of the Secretary to prescribe reasonable terms and conditions governing the insurance of mortgages on two-family and three-family dwellings. Mortgages covering dwellings that include rental units present unique issues not otherwise addressed in the Section 235 program, such as how rental income should be taken into account in determining the mortgagor's income for purposes of calculating the amount of interest subsidy. Should there be, for example, an imputed minimum fair market rent? In addition, the statute itself prescribes certain special conditions, including that the mortgagor "agree that during the term of the mortgage each of the rental units shall be occupied by, or available for occupancy, persons and families whose incomes do not exceed 1100 per centum of the area median income." This requires definition of how the condition of "availability for occupancy" is satisfied, how tenant eligibility is to be determined, what happens when the tenant's income rises above the area median income, and so forth.

Normally, these are the types of questions that are resolved through notice-and-comment rulemaking. I don't say that they have to be resolved that way, but normally that is the most desirable way of proceeding, as this Subcommittee has on many occasions insisted. That is why I approved an opinion to the effect that neither the non-denial provision to which I referred above, nor the separate provision, also enacted in 1983, that the Secretary begin issuing new Section 235 commitments and reservations within 30 days after appropriation of budget authority, was intended to preclude the use of rulemaking for establishing the terms and conditions under which insurance would be granted for mortgages on two- and three-family dwellings.

I must say again, however, that while rulemaking is permitted and is normally desirable, it is not required. The FHA insurance programs are covered by the Administrative Procedure Act exemption for "grants, benefits, and contracts." In addition, there is the "good cause" exemption under both the APA and HUD's own rule-making policies. In this case, both the passage of time since enactment of the 1983 legislation and the fact that the program is scheduled to expire on September 30, 1985, justify the Department in imposing conditions for two- and three-family mortgage insurance by notice rather than through notice-and-comment rulemaking. Field instructions are now in preparation and will be issued expeditiously, in ample time for applications to be made and considered for the funding that is currently available.

Mr. MORRISON. Let me ask one further question, if I could, about section 235. That is, as of December 1984, Mr. Secretary, you've published an allocation of 5,303 units under section 235. And out of that allocation, you have allocated to New England a grand and overwhelming total of 100 units, less than 2 percent of the national total.

I wonder on what needs basis you've made that kind of an allocation of units. And am I correct that this has been done just on the basis of developer applications rather than any assessment of the kind of needs that we have in our communities.

Secretary PIERCE. Now I'll have to let you answer.

Ms. McVAY WISEMAN. This allocation was based on need by our field offices and we took an extensive survey of demand and set a floor at 100 units. And region 1, that you are speaking of, that 100 units that were allocated there, not one unit has been used to date.

Mr. MORRISON. Well, you might note, as I said earlier, that your Department has failed to implement the precise expansion of authority which is most applicable to the cities in New England. And it's not surprising that you're having a hard time using the units when you're not implementing the exact changes in the program that were intended to make them useful in that area.

However, I'm also aware there were a substantial number of units requested in New England. And I don't understand how this is a reflection of need. Some 1,300—according to a letter from the Secretary dated November 6, 1984, there were 1,350 units requested in New England. So I don't understand your statement that there are not units needed.

Ms. McVAY WISEMAN. I don't know how many were requested. I don't have that information with me. But I do know that we did set a bottom floor of 100 and region 1 received 100 units and there were no requests for the other units, of which the regulations have not been implemented, to my knowledge.

Mr. MORRISON. Mr. Secretary, I would just appreciate if you would send me an explanation of how this allocation reflects the national need rather than just a response to developer interest.

Secretary PIERCE. We will do that.

Mr. MORRISON. Thank you.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Morrison.

[At the request of Congressman Morrison, the following additional information was submitted for inclusion in the record by Secretary Pierce:]

RESPONSE RECEIVED FROM SECRETARY PIERCE

When HUD received the allocation of \$150 million, we first determined that approximately 5400 units could be funded nationally. Because program requirements (mortgage limits, etc.) preclude activity in some areas, we wanted to make certain that units were distributed to those areas where they could be used. Our experience with earlier funding allotments indicated that units went unused in many areas and it was necessary to reallocate units frequently.

To avoid this problem, we solicited interest in this program from all of our field offices. When field offices canvassed their industry, it was not limited to developers only. In fact, in the State of Connecticut, many local groups expressed interest. The list of sponsors included:

Neighborhood Housing Inc., New Haven.

Corporation for Urban Home Ownership, New Haven.

On a national basis, we received requests from over 7,000 builder/sponsors totaling 70,000 units. Since every area could offer legitimate reasons why their request deserved special consideration, we simply divided the units proportionally based on a region's percentage of the total demand. In this way, we could be as objective as possible in our distribution process. As a result, even though 1300 units may have been requested for New England, that number is a small portion of the 70,000 units nationally.

Chairman GONZALEZ. Mr. Roth.

Mr. ROTH. Mr. Chairman, our colleague, Mr. Bartlett, complimented you on your evenhandedness. And I wish to compliment the other combatant in this joust and this trial by ordeal, and that's you, Mr. Secretary. You must relish the chance to come before this committee [laughter] because this committee is always so nice, congenial, civil, courteous, agreeable, affable, consideration. So I'm sure you'll rush to come back again.

I rather appreciate your statement, Mr. Chairman, because I think it was a tough statement for you to make but one that I think has to be made; when we are suffering these huge deficits and we want to keep this economy strong, I think the last thing we can do is to vote for H.R. 1, which would increase spending in this area from \$11 billion to \$22 billion, just doubling it. I don't know how that's going to take care of our deficits.

But, from my experience, EHAP, the voucher system has worked very well. One of my cities that I represent, Mr. Secretary, is Green Bay, WI. And from my experience in Green Bay, this voucher approach has worked very well. It's been effective and it's been efficient, and I hope that you continue it.

And from your statement, I think that you are right on target. And I wonder if you would elaborate a little on that for us.

Secretary PIERCE. Well, EHAP has worked, we think, very well and because it's worked so well, we really don't think there's need for a demonstration program with vouchers. We think it's already been proven between 1970 and now that the section 8 existing type of certificate, which is the forerunner of the voucher, is a very workable tool and a very good tool.

So we think that we know enough to go full-blast with the vouchers.

Mr. ROTH. I also, Mr. Secretary, represent some areas where Indian housing is very important in northeast Wisconsin. Now the voucher system is not geared for that area.

How are you going to work that?

Secretary PIERCE. Well, we'll get so many Indian housing units and we'll put them up in those areas.

Mr. ROTH. So, pardon me, you allocate those on a racial basis around the country? Is that the way that works?

Secretary PIERCE. On a fair share basis.

Mr. ROTH. I think a real telling point this morning is the chart you brought along, Mr. Secretary. And, if I may so, I don't think you put enough emphasis on it. When you take a look at the families assisted and the housing debt, I think that that's a real feather in your cap and I think that you should point to that more often and point that out.

Secretary PIERCE. Thank you.

Mr. ROTH. Thank you, Mr. Chairman.

Chairman GONZALEZ. Mr. Roth, if you will yield, I don't believe you mean to imply that the experimental program in Green Bay, that so-called Housing Allowance Program, is the same as the Voucher Program that has been advanced by the administration.

Mr. ROTH. Well, the Secretary will correct me if I'm wrong. I think that's a forerunner for the Voucher Program.

Secretary PIERCE. Yes, it is.

Chairman GONZALEZ. Well, but it was a 1971 program, Mr. Roth.

Secretary PIERCE. But we've continued it from the seventies and to now.

Chairman GONZALEZ. It was based on the old section 23 Leased Housing Program, Mr. Secretary. You know that. It has no relevance to this present experimental Voucher Program, Mr. Roth. I think the record should show that.

Mr. ROTH. Would the Chairman yield?

Chairman GONZALEZ. I think the record should show that.

Mr. ROTH. I think I still have time, Mr. Chairman.

Chairman GONZALEZ. Certainly. Certainly.

Mr. ROTH. I think that what the Secretary is saying is that we built in our good positive experiences. And the experience we had in Green Bay was a good positive experience, and that's what the Secretary is saying. He is taking an experience that has worked and——

Mr. SCHUMER. Would the gentleman yield? Would the gentleman from Wisconsin yield? Would the Chairman yield?

Chairman GONZALEZ. Yes, Mr. Schumer. I have time if you want to yield to him.

Mr. ROTH. I'll yield to the gentleman from——

Mr. SCHUMER. Thank you. I appreciate it.

It's my understanding, and either someone on the committee or the Secretary could correct me, that the new budget proposal doesn't have any money for vouchers. I don't understand——

Secretary PIERCE. It does have some money for vouchers, but very little. There are about 3,500 vouchers in it.

Mr. SCHUMER. So is that what we mean by going ahead full-blast in April? I didn't understand that comment.

Secretary PIERCE. No. I think you came in late, but that's all right.

Mr. SCHUMER. Well, I did come in late but I think I know the budget. Can you tell me——

Chairman GONZALEZ. The gentleman is not recognized for that purpose at this point. I think the essential thing though, Mr. Roth, is that we're not talking about the same type of programs that Green Bay undertook as an experimental program based on preexisting statutory provisions.

But I just wanted the record to show that because I didn't want a mal conclusion on the part of any reader of that record.

Yes——

Mr. ROTH. We had an excellent field trip here in Washington, and I'm going to invite you and the committee to come to Green Bay with me and we'll take a look at the real estate, what's being involved. And then I think we'll have a better chance to estimate just how well the program has worked.

Chairman GONZALEZ. Well, I really appreciate that invitation. I promise you, we will accept it because we were just waiting for a budget allocation for the legislative budget to plan our field trips, which will be very intensive.

Mr. ROTH. Well, I can assure you, Mr. Chairman, that what we find in Green Bay, WI, will all make us proud.

Thank you, Mr. Secretary.

Chairman GONZALEZ. I appreciate that. Thank you both.

Mr. Cooper.

Mr. COOPER. Thank you, Mr. Chairman.

Mr. Secretary, I'd like to focus on your testimony at the bottom of page 8, your UDAG testimony, where you say, and I quote:

As you know, I've been one of the program's strongest supporters. I have fought for its continuation.

In reply to Mr. Kanjorski's question, it seemed that you have now given up the fight. You now agree with the administration that UDAG should be terminated. I have a lot of Republican constituents who'd be very interested in knowing exactly when you gave up the fight and when you started agreeing with the administration on this point.

Secretary PIERCE. Let me say this. There are a lot of fights. We fight a lot within the administration as to what programs should go forward, which should not, what the cuts should be.

But, then, the President makes the final decisions. When he makes a final decision, it's like the coach of a ball club, we go along with him. If you disagree with him, then you ought to leave the administration. And I don't disagree that much with the decisions he has made.

I'm very much in favor of his general policy of trying to reduce the deficit because I truly believe that if we don't, we're going to be in an economic mess very soon.

Mr. COOPER. Have you given up bargaining or negotiating to try to allow the UDAG Program to——

Secretary PIERCE. The President's budget is here and there's no UDAG in it.

Mr. COOPER. But there will be some compromise. There will be some compromise down the road.

Secretary PIERCE. We'll cross any bridges when we come to them but, right now, the budget is here. It's without UDAG.

Mr. COOPER. Well, looking at your past fight to allow UDAG to survive, exactly what did you do to fight to allow UDAG to survive?

Secretary PIERCE. Well, let me say this with all due modesty, I don't think there would be a UDAG at all without my help. From the time I got here in 1981, efforts were made to eliminate it.

If I had not pushed for UDAG, it probably would have been cut in 1981 and we wouldn't have it to worry about it now.

Mr. COOPER. But if you have been a loyal servant of the administration for several years now, if you are one of UDAG's strongest supporters and you can't eke out a marginal existence for this program that you believe in, where is your clout?

Secretary PIERCE. But that's not the point. The point is some programs have to go. This one's tied to local economic development programs such as the EDA, and certain Appalachian Regional Commission and Farmers Home programs.

Mr. COOPER. But those are outside of your jurisdiction.

Secretary PIERCE. But that doesn't matter. They are all tied together. The point is to eliminate all local development programs. That's the point. The administration considers it economically feasible to do so.

We're going across the board and we're getting rid of all of them. It is part of the effort to reduce the budget.

That was the President's thinking. That's what he's done. He has to get rid of some programs. He must try to reduce the budget. And that's what he's done.

Mr. COOPER. But, Mr. Secretary——

Secretary PIERCE. And so—and I agree with him. OK?

Mr. COOPER. You're more than a Charlie McCarthy, repeating what the President would like you to say. You believe in the UDAG Program. And, yet, you lost the fight.

Secretary PIERCE. There comes a time of decision. He made the decision. And if you don't believe in a decision, you ought to leave. I believe in his decision. He had to make a cut somewhere.

You're the Congress. You do what you think is right.

Mr. COOPER. I asked the question earlier when you started believing the President's decision. Was it after the election?

Secretary PIERCE. What are you talking about?

Mr. COOPER. Well, when did you start going along with the President's decision on UDAG?

Secretary PIERCE. The President didn't make the decision until just recently, just before the budget came on the Hill.

Mr. COOPER. And that's when you became a sudden convert?

Secretary PIERCE. No. Look, I played football. When my coach told me, I want you to make an end run instead of throw a pass, I made the end run, and if I lost ground, I wouldn't blame him. And I believe the present situation is relatively similar.

The President has a tremendously tough job. He must make the final decisions on budget cuts.

Now, no matter where you cut, you're going to get criticism. God—you know, there's an old saying around here in Washington: "Don't cut me. Don't cut you. Cut the man behind the tree."

I mean, everybody's in favor of cutting the budget until you get to the program they are interested in.

Mr. COOPER. What is the extent of the sacrifice you are willing to make? If the President asked you to eliminate HUD, would you go along with that?

Secretary PIERCE. I wouldn't have to make that decision. You would. The Congress would.

Mr. COOPER. Well, you would have to testify before us to see whether—

Secretary PIERCE. Well, I mean, you would have the decision.

Mr. COOPER. Well, ultimately you are right.

Secretary PIERCE. What would you do?

Mr. COOPER. I wouldn't favor it.

But I am just interested in knowing how far you are willing to go.

Secretary PIERCE. Look.

Mr. COOPER. What would it take before you would be interested in—

Chairman GONZALEZ. Will the gentleman yield to me?

I would suggest ceasing and desisting in this line of questioning because we are asking—well, what I think really is outside our consideration.

The gentleman, the Secretary, serves at the pleasure of the President, not ours. If he has explained his reasons why he made a certain decision, it is not really pertinent for us to question his motives or his limitations. Rather than to ask for a specific reply to the reasonableness of the priority given in the decision to cut out this program, from the standpoint of the effectiveness of the program.

Earlier, he replied that he thought UDAG had worked satisfactorily, that had he had his druthers he would have gone along.

So I really believe that we shouldn't get into that area, though, in which we are really challenging a decision that is outside of our proper area of jurisdiction.

Mr. COOPER. The chairman is correct. I was just interested in the role of the Secretary in being an advocate for housing.

Mr. Moran is here, I believe, and I am awaiting a response to a letter I wrote him about small community UDAG's, and I won't ask him to reply at this time, but we are still waiting.

Chairman GONZALEZ. Mr. McMillan?

Mr. McMILLAN. Thank you, Mr. Chairman.

Mr. Secretary, I empathize with the difficulty of your position, and I commend you for the strong statement that you have made and your willingness to share your concerns and your commitments within the recommendations of the administration.

I would have to confess that I haven't made up my own mind how far I would be willing to go with respect to UDAG, and I think it has been a good program, and I think one of the purposes of being here today, as well as other days, is to hear testimony so that we can make judgments and decisions with respect to significant programs in the framework of a broader decision that this Congress has to make and that I think within which the Secretary has delivered his report.

And that is the tremendous budget deficit that this country faces, in excess of \$220 billion a year, and that if this Congress is resolute and forceful in coming to grips with it we have a chance—a chance—to significantly bring down interest rates further, to significantly bring down inflation further, to significantly encourage real growth in this economy through the balance of the 1980's.

And I think those considerations are very much a part of what we are talking about here with respect to each of these programs because if we have a strong, vigorous, growing economy, with low-interest rates and low inflation, it is going to do more for the homeless, it is going to do more for housing than any other stopgap makeup program that this committee or the Department of Housing and Urban Development can devise.

We are really talking about stimulating the genius of this economy, and I think that is our No. 1 priority, and I commend you, Mr. Secretary, for making your recommendations within that spirit.

I have a few other questions that I would like to ask.

One, we have received testimony, Mr. Secretary, yesterday from a number of the major housing interest trade groups against the administration's proposal to charge increased or additional fees with respect to federally related mortgage credit programs.

I would really like your opinion as to whether these additional fees or increased fees would, in your judgment, seriously jeopardize the capacity of low-income families to avail themselves of those insured mortgage programs.

Secretary PIERCE. No, that would not. It is a relatively small amount.

But how this all came about is there is an administration move to increase all user fees, and whether we increase ours or not de-

pend on the VA. If the legislation is voted to increase the VA fee, then ours will be increased. If not, then ours won't be increased.

It is attached to that. As far as our Ginnie Mae points are concerned, they are attached to legislation affecting Freddie Mac and Fannie Mae. If that legislation passes, then we will be impacted. If not, we won't.

But in any event, it will make very little difference to purchasers.

Mr. McMILLAN. Should these fees be allowed to exceed the related costs attached to the specific programs that they apply to?

There has been some assertion that these fees exceed the cost of administration of those programs—

Secretary PIERCE. Well, yes.

Mr. McMILLAN [continuing]. And that therefore they are a tax and not a fee.

Secretary PIERCE. Well, that may be. That is right. They will be. If we go to 5 percent in FHA, we will be making money. There is no doubt about that.

But, on the other hand, VA will not. VA is now at 1 percent. It cannot really operate at that rate. It has to go higher in order to just break even, and I don't know how 5 percent was picked. But maybe that is why it was picked, to really let them break even.

In the last analysis, however, what happens to HUD in this area will depend on the outcome of the legislation.

Mr. McMILLAN. One other question and maybe a suggestion with respect to UDAG. We have talked about UDAG and enterprise zones, and we have talked about the need to focus programs on specific areas, problem areas, rather than generalize about the whole country, and I think each of these provides an option to do that.

And with respect to enterprise zones, although this Congress has not addressed the issue and adopted a program, they have been adopted successfully in a number of States. I understand.

Are you familiar with that?

Secretary PIERCE. Yes, about half the States.

Mr. McMILLAN. And that certainly is a local option that already exists for a State.

With respect to UDAG, has much exploration been made as to whether or not a Federal guarantee type program—in effect—in lieu of direct grants—that provides you if seed capital is achieved the same purpose as UDAG? Many UDAG projects are from what I have heard, commercially successful. Consequently, they potentially can attract capital in their own with minimal guarantees rather than a direct Government Grant Program.

Secretary PIERCE. We have done no research in that.

Mr. McMILLAN. I think I might be with exploring.

I understand my time has expired, Mr. Chairman, and I thank you very much.

Thank you, Mr. Secretary.

Chairman GONZALEZ. Thank you, Mr. McMILLAN.

Secretary PIERCE. Thank you.

Chairman GONZALEZ. Mr. EMMETT?

Mr. EMMETT. Thank you, Mr. Chairman.

Mr. Secretary, just to follow up on the UDAG inquiry and the idea of the emunciation in your statement of your priority in Fed-

eral enterprise zone legislation, what is your budget's estimation of the cost of enterprise zone legislation to the U.S. Treasury?

Secretary PIERCE. Well, the Treasury has made an estimate, not us. The Treasury estimate is in 3 years it would be a \$1.5 billion cost.

Mr. ERDREICH. \$1.5 billion?

Secretary PIERCE. \$1.5 billion.

Mr. ERDREICH. Over 3 years? Or do you mean it reaches \$1.5 billion—

Secretary PIERCE. It reaches \$1.5 billion in the first year—I believe it is \$100 million and then goes up gradually to \$1.5 billion.

Mr. ERDREICH. So we are talking about a program that gets to a tax forgiveness of \$1.5 billion after a 3-year run, roughly, according to Treasury estimates?

Secretary PIERCE. That is right, according to Treasury estimates.

Mr. ERDREICH. Now, the current UDAG Program is a \$440 million capped amount per year. So just looking at dollars, you know, I see a pretty vast difference.

And when you say that the enterprise zone is going to reach \$1.5 billion, there is an awful lot of priority put on tax simplification.

Is it your understanding, or do you have any—have you had conversations with Treasury—that that sort of tax forgiveness or loophole, or whatever you want to call it, will be allowed to be inside the new taxation plans?

Secretary PIERCE. That will be allowed to exist. That is the idea, to try to get people to go into these economically depressed areas. We would keep the tax proposals that we have in the bill.

Mr. ERDREICH. So am I hearing, then, that the Treasury's proposal for tax simplification, if it is—

Secretary PIERCE. Would not include enterprise zone.

Mr. ERDREICH. Would not include?

Secretary PIERCE. That is right.

Mr. ERDREICH. Would not allow such a tax forgiveness?

Secretary PIERCE. No, what I am saying—

Mr. ERDREICH. Or would allow?

Secretary PIERCE [continuing]. Whatever we have that affects the taxes in the enterprise zone would continue regardless of how the Treasury proposal or other legislation comes out for simplification of taxes.

Mr. ERDREICH. All right. So that would continue, then, under the Treasury proposal, if I follow that?

Secretary PIERCE. That is right.

Mr. ERDREICH. The CDBG idea of reducing 10 percent in dollars and then also reducing—or changing the allocation between urban and your small city set-asides—the entitlements to cities, I mean, and communities and the small communities—from 70/30 to 60/40 would end up with better than a 20-percent, or roughly a 20-percent reduction for current entitlements.

Has there been any—

Secretary PIERCE. Current entitlements for the cities, you mean?

Mr. ERDREICH. Pardon?

Secretary PIERCE. Current entitlements for cities would be 23 percent less.

Mr. ERDREICH. OK. Has there been any look-see by your Department as to what impact that would have on those current programs, or did you just come up with this as an arbitrary way to reduce the deficit?

Secretary PIERCE. No; it is not arbitrary because of the 23 percent. It was figured that in the light of our economic recovery, cities could make that much of a sacrifice, and with respect to the change in the ratio from 70/30 to 60/40, that was done because there are certain programs that Farmers Home now has that it will not have, and they are basically the kind of programs that can be done under a CDBG grant.

So really what we are trying to do is to give a break to rural areas, which will be losing because of the programs under the Farmers Home will be eliminated.

Mr. ERDREICH. The last question I have, I am trying to understand this chart a little better.

The tremendous reduction in housing debt, which looks to be about \$40 billion, which I think is great, is that on-budget or off-budget?

Secretary PIERCE. That is on-budget.

Mr. ERDREICH. So has it come in great part, or in large part, because of the problems that arose from the change in the 1984 tax law, and so you have got about a \$14 billion buy-in this year?

Secretary PIERCE. That part is in there.

Mr. ERDREICH. And what additional is coming from those sort of changes?

Secretary PIERCE. Well, let me just put it this way. What would happen if you didn't have that \$14 billion in there, the reductions would go something like this: From \$244 billion to about \$235 billion now to about \$230 billion at the end of this year. But because that \$14 billion is in there, it will go much lower.

However, it would be going down anyway. But it goes down much more sharply because of that \$14 billion.

Mr. ERDREICH. All right. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Erdreich.

Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman.

Mr. Secretary, how many units were requested in applications for 202 housing for the elderly last fiscal year?

Just approximately.

Secretary PIERCE. I think about 2,000, but let me just check.

[Pause.]

Secretary PIERCE. Well, let me have that question again because we are confused with it a bit. What was that question exactly?

Mr. LEVIN. I think it is clear.

Secretary PIERCE. No; but just say it again, please.

Mr. LEVIN. If you add up all the units requested in applications for elderly housing—

Secretary PIERCE. Oh, all right.

Mr. LEVIN [continuing]. How many units were requested?

Secretary PIERCE. How many applications were made?

Mr. LEVIN. Well, no, the units within those applications. How many units were the subject of a request for Federal assistance?

Secretary PIERCE. Under 202?

Mr. LEVIN. Under the 202 housing for the elderly.

Secretary PIERCE. We don't know. We will have to get that for you. We don't know exactly. We think it is around 20,000, but we are not sure. We would like to make sure we put it in the record correctly.

Mr. LEVIN. All right, 20,000. I would like to receive those figures. No one here has an idea of what the ratio of requests to funding was?

No.

Secretary PIERCE. We will have to get that for you. We will be glad to try to get that answer.

Mr. LEVIN. Well, all right.

[At the request of Congressman Levin, the following additional information was submitted for inclusion in the record by Secretary Pierce:]

RESPONSE RECEIVED FROM SECRETARY PIERCE

The Department received applications for funding from 1,368 projects for a total of 62,771 units in Fiscal Year 1984.

Mr. LEVIN. There was appropriation for 12,000, and the number of requests was greater than the funding, and you now are suggesting elimination of any further appropriations for several years.

Secretary PIERCE. For 2 years.

Mr. LEVIN. What is the logic behind that?

Secretary PIERCE. The logic is, again, that we have to try to reduce our budgets in order to fight the deficits problem.

Mr. LEVIN. All right, so that is the logic?

Secretary PIERCE. And so people have to make certain sacrifices, and that is the sacrifice here.

Mr. LEVIN. It is not that these units aren't needed?

Secretary PIERCE. No.

Mr. LEVIN. OK, I would very much appreciate your sending me those figures for the last 4 fiscal years, and I would also appreciate your providing a detailed description of the criteria for selection of units.

[At the request of Congressman Levin, the following additional information was submitted for inclusion in the record by Secretary Pierce:]

RESPONSE RECEIVED FROM SECRETARY PIERCE

In addition to the Fiscal Year 1984 numbers that I have provided, applications were received in the preceding three years for a total of 67,045 units in 1,361 projects in FY 1983; 83,788 units in 1,488 projects, in FY 1982, and 74,486 units in 1,206 projects in FY 1981.

Four selection criteria have been constant since the Fiscal Year 1982 funding cycle, when we first established a numerical rating system based on a maximum of 100 points and a standard form to be used nationwide. These factors, and their value for FY 1985 selections, are (1) the borrower's capacity to carry through to long-term operation a project for housing and related facilities (20 points); (2) the borrower's financial capacity (30 points); (3) location of the project (site/neighborhood) (15 points) and (4) modest design/cost (25 points). In 1982, the fifth criterion was "extent of displacement and feasibility of relocation."

In FY 1983, the fifth criterion was changed to "overall feasibility," to be rated by the Regional Office. On February 28, 1985, instructions were issued on selection procedures for FY 1985 applications that changed the fifth criterion to "special needs"

and specified seven factors to be considered in awarding those points. This fifth criterion, in each of the years discussed, had a maximum value of 10 points.

Mr. LEVIN. Mr. Secretary, in the fiscal years 1982, 1983, and 1984, you, HUD, deobligated more funding for public housing than it reserved or obligated.

Why was that?

Secretary PIERCE. We believe that what our public housing should be renovated and modernized. We don't think we need to build a great deal more of it. And we were shifting our emphasis—we are trying to shift our emphasis into vouchers.

Mr. LEVIN. The money was used for vouchers.

Secretary PIERCE. No; but I am saying that is where we were shifting our emphasis. We are shifting out of building.

Mr. LEVIN. All right. Well, that money wasn't obligated then because you say it wasn't needed or—

Secretary PIERCE. No, we are saying that is the way we were going, and at that time we were trying to keep our budget trimmed.

Mr. LEVIN. Do you know how many more units would have been built if you had obligated all that money, the money that was appropriated?

Secretary PIERCE. No, I don't.

Mr. LEVIN. So in terms of public housing, the approach of the administration really began before the deficit crisis became—

Secretary PIERCE. Oh, no. No, a lot of us in the administration realized there was a deficit crisis when we got here, but we were a bit slow taking it into hand. And we recognized that. I certainly recognized a budget deficit in 1981, when I came here.

Mr. LEVIN. So you were motivated in part by what you perceived as a deficit in 1981.

I will tell you why I am asking. I think that we have some hard decisions to make, very hard decisions to make. They won't be well made if we obscure issues of need, and I think your testimony is interesting in this regard, and let me ask you a few very specific questions about your language, and tell me yes or no if you would.

On page 1, you say the administration is directing our assistance to people, not bricks and mortar.

Secretary PIERCE. Yes, that is right.

Mr. LEVIN. Is it your position that the administrations prior to this one, in terms of housing, directed their assistance to bricks and mortar, not people?

Secretary PIERCE. Well, we think they put the emphasis on bricks and mortar. We think that one of the major programs was section 8 "new construction." We think that program benefited developers, people who wanted tax shelters, lawyers, and others much more than the poor people who needed shelter.

We think, for example, the Voucher Program benefits people who need shelter more than that building program does.

Mr. LEVIN. They show on page 3 where you say: "We'll subsidize a family instead of a builder." Your position is that the programs in previous administrations subsidize builders instead of families?

Secretary PIERCE. No, they did it more, that's just a—the—

Mr. LEVIN. So, you're—instead of—

Secretary PIERCE. We think it helped.

Mr. LEVIN. So instead of, you don't mean to say that you reversed those priorities from previous administration's.

Secretary PIERCE. What I'm saying is, I think that those programs were wasteful, and they helped the builders much more than they helped the people.

Mr. LEVIN. OK, I think we have some basic differences in perspective. There were abuses but I don't think we would call the programs—

Secretary PIERCE. Well, that's you. That's what you call it.

Mr. LEVIN. OK. Now, let me ask you. Your way we'll offer freedom of choice instead of forcing people to live in a Federal project. Your position is that the hundreds of thousands of people today, if you ask them, they would say they're being forced to live in a Federal project. That's how you sum up—

Secretary PIERCE. No, what we're saying—we're giving them choice. In a sense, with a voucher, you do have choice. You can go to all different parts of the town to exercise your voucher. As a matter of fact, if you want to pay more of your own money, you can probably even get a better place to live. You have more choice with a voucher.

Mr. LEVIN. One last question. my time has just expired.

You say in regard to a number of these programs—202 Housing—that these are temporary pauses, just a temporary pause in funding new assisted housing units.

What assurance does anybody have that it's more than a pause? You cite the budget deficit crisis and, under the administration's projections, the deficits are going to—through 1988, 1989, 1990, and this is reinforced by the CBO figures—that these deficits are going to continue in the range from 125, 150 billion, maybe, to 225 billion. So, in view of those figures—some of which come from this administration itself and others come from CBO, which isn't run by a bunch of Democrats at the moment—how do you say with assurance, on page 4, "When full funding resumes in fiscal 1988"?

Secretary PIERCE. Because that's what we intend. We intend the full funding to resume in fiscal 1988.

Mr. LEVIN. Regardless—

Secretary PIERCE. We believe that within that time our economy will improve and continue to be sustained. It will continue to be strong. That we will gain more tax moneys because of a strong economy, that there'll be more people working, that all will benefit from that.

Mr. LEVIN. I understand that, I understand that.

Secretary PIERCE. And then we can go ahead with this program and probably not need as much assisted housing as we even do now. So those are the things we believe.

Mr. LEVIN. So, your position is that even if the deficit is at the \$100 billion level in 1988, projected, that you'll be back here—if you're still Secretary—urging or proposing a full resumption in 1988? Even if there's a deficit of \$125 billion?

Secretary PIERCE. That is correct, because the deficits can be figured by OMB as well as the people up here. That's exactly right.

Mr. LEVIN. Well, OK, thank you, Mr. Secretary.

I don't think that last—I was talking about OMB's own figures, but be that as it may.

Thank you.

Chairman GONZALEZ. Thank you.

Mr. Lundine?

Mr. LUNDINE. Thank you, Mr. Chairman and Mr. Secretary.

In your judgment, is there any need for any low-income housing additional units anywhere in America?

Secretary PIERCE. Oh, sure, there's a need. I mean, there's no doubt about it. From the time this Nation began right up until now, there's always been a need for more low-income housing. In fact, there's never been a time in the history of the United States, that we've had enough low-income housing. So, sure, there's a need.

Mr. LUNDINE. In other words, not all of the low-income, elderly, or other low-income people in America, can be met by our existing housing stock?

Secretary PIERCE. Actually, that's right, and it never has been. We've never been able to do it. And we've been behind for years.

Mr. LUNDINE. My question didn't imply that it ever had been different.

Secretary PIERCE. But, that's right, there's no doubt about it.

Mr. LUNDINE. But, basically, we're dismantling anything that would build anything for anything of these people, at least for 2 years; right?

Secretary PIERCE. Yeah, for 2 years we're going on a moratorium because we think that's what we need to try to get our deficit in order, which we think is more important, and that people will have to make sacrifices. Otherwise, we're going to have serious economic trouble. That's the belief.

Mr. LUNDINE. Let's talk about the section 202 Elderly Program. President Reagan visited Buffalo during the campaign last year and indicated that this is a program he supported and, I believe, that you have previously and I know that it has widespread support among a broad cross-section of people in the country, and now you're proposing no units for—

Secretary PIERCE. For 2 years.

Mr. LUNDINE [continuing]. The next 2 fiscal years.

Secretary PIERCE. That's right.

Mr. LUNDINE. What happened?

Secretary PIERCE. For the same reason I told you before. What happened?

Mr. LUNDINE. Yeah, what happened in between the President's statement last fall and your previous statements to this committee and when the budget came out. What happened? Did the budget—deficit go up or—

Secretary PIERCE. Consideration of what we needed to cut. We had to cut in order to try to win the deficit battle. That's it. That's the consideration of things. Something had to be cut.

Mr. LUNDINE. And speaking personally, that need became apparent to you only recently?

Secretary PIERCE. No.

Mr. LUNDINE. Oh.

Secretary PIERCE. I've known it since 1981.

Mr. LUNDINE. Well, what are we to expect?

Secretary PIERCE. And we have been cutting things since 1981.

Mr. LUNDINE. First you told us that against your recommendations a major program like UDAG was scuttled, and that the captain of the ship had to make that decision—or the coach of the team, I think, was the analogy you used. Now, I'm telling you the coach told us that this was a good program.

Secretary PIERCE. No doubt about it, it is a good program. That doesn't mean you can't put it on a moratorium for 2 years. It's still a good program. Nobody said it's not a good program.

Mr. LUNDINE. I see. And of all the things that HUD does, how much money is in the current budget request for HUD, total?

Secretary PIERCE. Total amount, let me get the figure; \$6 billion, I understand. About.

Mr. LUNDINE. I'm sorry?

Secretary PIERCE. About \$6 billion.

Mr. LUNDINE. And out of all that \$6 billion in spending, the amount that is allocated to this Section 202 was—well, let me put this differently.

The amount that would go to the 202 Program was more expendable than anything else in the \$6 billion?

Secretary PIERCE. Well, those were the decisions that were made.

Mr. LUNDINE. Just one other question about this philosophy on housing—I thought it was interesting, your exchange with Mr. Levin—with regard to people benefiting, have you ever seen any indication from tenants—as you've toured many section 8 projects I'm sure of various kinds—have you ever seen any indication from tenants that they were, in general, dissatisfied with the living circumstances or that they weren't people-oriented programs?

Secretary PIERCE. That they weren't people-oriented programs?

Mr. LUNDINE. Yes.

Secretary PIERCE. I've found people have dissatisfactions but I don't know what the people-oriented program means, exactly, but there were people who were dissatisfied with a lot of things. Sometimes an elevator wasn't working; sometimes some kids had painted up the front porch; all kinds of things that they've been dissatisfied with, yes. And I've talked to a lot of people who live in assisted housing, who made those kind of complaints.

Mr. LUNDINE. And that does not exist in any—those complaints don't exist with respect to any existing housing or any housing that people rent through vouchers?

Secretary PIERCE. It exists with all kinds of people. You can have a man live on Park Avenue in New York, pay \$2,000 a month for a one-bedroom apartment. He can complain. So, why can't they?

Mr. LUNDINE. Coming back to the UDAG Program again, you have observed that the purpose of the program was to create jobs and develop economic generators. Over the long run, do you think that the additional tax revenues coming in from UDAG projects will be more or less than they would have been if those projects that you've already done had never been accomplished?

Secretary PIERCE. Be more.

Mr. LUNDINE. So, in a way, aren't we being shortsighted to terminate it if the return on investment is that good?

Secretary PIERCE. The point is, we had programs that we had to terminate. And it was thought that all of the local economic development programs should be terminated, not just UDAG, but the

EDA, the Appalachian Commission, the Farmers Home local economic development programs, and others. That was the decision that was made. That all of these programs should be terminated, that the local governments and the State governments could do without them and that we needed it to reduce the budget.

Mr. LUNDINE. In spite of the fact that in these instances, unlike virtually any others in Federal expenditure, there is a return on the investment.

Secretary PIERCE. That was decided, yes. That was the decision.

Mr. LUNDINE. You mentioned Farmers Home. Are you confident that HUD could administer rural housing programs effectively—as effectively as the existing Farmers Home delivery system?

Secretary PIERCE. We believe so.

Mr. LUNDINE. Would you have any agent or employee of HUD in every county?

Secretary PIERCE. You won't have those in Farmers Home any more either. That's another thing that's happening with this budget. They're getting rid of a big percentage of those offices, so they won't be around anyhow.

Mr. LUNDINE. Will you have any kind of more decentralized capability than the current area offices?

Secretary PIERCE. Oh, yeah. We have offices more decentralized than area offices.

Mr. LUNDINE. And to serve the rural areas, will you make any special outreach effort?

Secretary PIERCE. We will do what we have to do to get the job done. If we have to have new offices created, we'll do it.

Mr. LUNDINE. Is there any funding for that contemplated in this budget?

Secretary PIERCE. Well, no, because we're not taking over the Farmers Home Administration's programs in the 1986 or 1987 budgets. We're not doing it until 1988.

Mr. LUNDINE. Thank you, Mr. Chairman.

Chairman GONZALEZ. Mr. Manton.

Mr. MANTON. I'll yield to my—

Mr. CARPER. Mr. Manton, you've been a patient member of the Committee. I would insist that you go next.

Chairman GONZALEZ. Mr. Manton, under the revised unofficial procedural rules, you were here first and so we've been recognizing.

Mr. MANTON. Well, I thank you, Mr. Chairman, for deviating somewhat in your discretion from the pecking order and descending to what I call the pit. [Laughter.]

Mr. Secretary, I think that if one were to try to summarize your testimony, it would be that we all have to make sacrifices because of the very important situation facing us in the form of the budget deficit.

Our Federal debt will soon hit \$2 trillion, having doubled in just about 4 years. And I know that there's been some talk here about economic development, a bigger slice of the pie for all, and that the rationale for the 1981 tax cuts was that we would have that kind of development and that the economy would grow and even though tax rates were set at a lower rate, that the absolute amount of revenues would increase by reason of economic growth.

It was projected that we would cross over into the black in fiscal year 1984 by a small amount, about a half a billion dollars.

We all know that hasn't happened and that we're moving along at a deficit rate per annum of approximately \$200 billion. As a result, we have to make very difficult choices on who makes the sacrifices necessary.

During the course of the deliberations of this committee on H.R. 1, we've received testimony from a number of groups and individuals. I was particularly impressed by the testimony of our own Archbishop O'Connor, from New York. Although he had a distinguished military career over a 27-year period, he said that in view of the plight of the homeless and the poor, that if he were in our shoes he would take a very, very close look at military expenditures before making the type of sacrifices that will perhaps be visited upon the poor and the elderly if we agree in law to the President's budget proposal.

Now, I realize that you come here as a team player—you used that analogy—that the coach has made some decisions that you as a player might not have made. But, that you are carrying the team message here today.

I would like to ask some specific questions and you'll forgive me if they relate somewhat to my home State and city of New York.

I think Mr. Garcia said that currently 175,000 individuals and families are on the waiting list for public housing or rental assistance in New York City. In fact, the cities rental vacancy rate has dropped from 2.13 percent in 1981 to a low figure now of 2.04 percent in 1984. And, just parenthetically, with those kind of vacancy rates I would question—not the philosophy of the voucher—but rather the effectiveness of a voucher which, if one had it in hand, they might find it difficult to use.

Secretary PIERCE. That's the reason we want to have rehabilitation in a small, targeted building program.

Mr. MANTON. Quite simply, we have a severe lack of decent, affordable housing in New York City.

Given your plans to virtually eliminate Federal housing funds for 2 years, what advice do you have for local officials in New York City and across the country who are struggling to meet the housing needs of the poor, the elderly, and families of moderate income?

Secretary PIERCE. Well, I do not have specific advice. I think it would be presumptuous on my part to try to give advice to somebody in Seattle or Minneapolis, MN, as to what they should do.

It becomes a problem. They've had to make a sacrifice. They'd have to use their best judgments, and they'd have to use their assets as wisely as they possibly could.

But I don't feel as though I can tell them what they should do. I can't.

Mr. MANTON. Returning to the deficit question. Since 1981, Federal assisted housing programs have been cut by roughly 60 percent, more than any other domestic program. Yet, today we're told that further cuts are needed in order to reduce the Federal deficit.

In the meantime, while Federal housing programs were being cut to the bone, the Federal deficit rose from \$78 billion in 1981 to a projected \$222 billion in this fiscal year.

Hasn't HUD made its contribution to deficit reduction? Haven't the homeless and those who cannot afford a decent place to live made their contribution to the deficit reduction already? And why are we to expect further cuts in housing programs to have any different effect on the deficit than it has had in earlier years?

Secretary PIERCE. Well, actually, yes. HUD has accepted its cuts. There are others who have sizable cuts, too. I don't know whether your figures are accurate but I know as of in this year—we're not cut the most this year. I don't know, maybe over 4 years, maybe we are. I don't know.

Mr. MANTON. I think my figure is accurate, Mr. Secretary.

Secretary PIERCE. I'd have to check that. But I know this year there are others cut more than we are—Interior, Small Business. There are others that are cut more than we are.

But, I mean, the point is, it's a matter of sacrifice. It's a matter of what you have to do. It's a matter of where you're going to make the cuts and those decisions have to be made.

Now, you can argue that housing has had enough. I guess if I talked to some people over in Interior, they would say they have had enough. If I talked to people in any department—HHS, or anybody else, some may well tell me, we've had enough, we've had our share.

Mr. MANTON. I must say I think you'll agree with me as a New Yorker, that it's a disgrace that any citizen of the United States has to sleep in the street. Now, I know there are arguments that some of them have pathologies that are not controllable, but a lot of them are not. They're people who have been displaced because of fires, or the severe shortage of housing, or due to foreclosure or losing a job. Those are the people that we ought to be concerned about.

In that regard, the stopping of production, even if it's only for the 2-year moratorium, represents a very dangerous course of action.

In New York, today, we have—and you've heard the figure—50,000 families doubled up in housing. You come over to my district in Queens, you'll find a lot of the one-family and two-family houses are illegal according to the codes, because people are cutting some of those apartments into rooms for four and five single people. They're taking basements and making illegal basement apartments. They're dealing with the lack of supply in an illegal, unsafe, and unsanitary way.

But I would just like to direct your attention to HoDAG for a minute. You mentioned in your testimony that it costs \$76,000 per HoDAG unit to house a low- or moderate-income family. Now since that allocation would go over a 20-year period, what is the difference between that and a \$3,500 voucher which would be extended over the same period of time? Wouldn't it come out to about the same thing?

Secretary PIERCE. No, because actually many of the poor people in HoDAG projects will also be receiving vouchers or section 8 existing certificates.

Mr. MANTON. But aren't the end costs over a 20-year outlife the same, and isn't a fact that with the voucher you don't end up with a unit added to the supply?

Secretary PIERCE. Well, I'd have to compute that and have to work it out. I don't know. I can't answer your question. May I put an answer in for the record?

Mr. MANTON. Yes, sir.

Secretary PIERCE. I'll put an answer in the record.

Mr. MANTON. I'll appreciate seeing that in the record.

Secretary PIERCE. OK.

[At the request of Congressman Manton, the following additional information was received for inclusion in the record by Secretary Pierce:]

RESPONSE RECEIVED FROM SECRETARY PIERCE

The funded HoDAG projects require an upfront subsidy of \$76,000 to obtain one lower-income unit for 20 years. To allow a comparison with the upfront HoDAG subsidy, a voucher subsidy, involving an annual payment over a period of years, must be converted to a present discounted value measure. The present value of a series of annual voucher payments of \$3,500 (paid monthly) over 20 years is \$30,200, assuming a discount rate of 10 percent.

Therefore, the cost of a Housing Voucher unit, when calculated over twenty years to provide the comparison with HoDAG, would be slightly more than \$45,000 less than the cost of a HoDAG lower-income unit.

Mr. MANTON. I don't know if I still have any time left, the chairman would remind me if I do, but I'd just like to talk about UDAG for a minute.

Chairman GONZALEZ. One more question.

Mr. MANTON. Thank you, Mr. Chairman. I'll be brief.

Although you said you are a teamplayer and the coach has set the game plan, I wonder if you'll agree with this, that reported unemployment in UDAG-eligible cities averaged 8.2 percent compared with the 5.5 percent in other communities. Also employment growth in eligible cities averaged only one-third the national rate and eligible cities averaged twice the tax burden of other communities.

What was the rationale, in view of these figures, for the coach and/or his other advisers deciding to cut UDAG?

Secretary PIERCE. I think the rationale was that all of the local economic development programs, UDAG and all the rest, should go out of existence, because the cities, local governments and States, could handle the situation now that the national economy has improved; and now that a lot of the States and cities have surpluses. The administration believes they can do it, and we need to get rid of these programs in order to help our budget situation.

Mr. MANTON. You heard the questions of Mr. Kanjorski relating to his specific region being severely impacted by the lack of economic progress.

Secretary PIERCE. You asked me what was the rationale. I gave it to you.

Mr. MANTON. So what you're saying is that the rationale was to eliminate all economic development programs, regardless of the merits of a particular program.

Secretary PIERCE. Local economic development programs were going to go and—

Mr. MANTON [continuing]. Local economic programs are per se not going to be handled by the Federal Government any more?

Secretary PIERCE. That's right. It is thought that the State and local governments handles what these programs currently do.

Mr. MANTON. Thank you, Mr. Secretary. Thank you.

Chairman GONZALEZ. Mr. Carper.

Mr. CARPER. Thank you, Mr. Chairman.

I'd like to welcome the Secretary to our committee today and thank you for your testimony. I appreciate the difficulty of your job and your desire to remain a team player, but we've got a tough job here in trying to work in a cooperative spirit to begin reducing budget deficits.

I share your concern and that of this administration over what the failure to do so will likely do to our economy. And I'd like to try to work in a constructive way to reduce those deficits.

Secretary PIERCE. Fine.

Mr. CARPER. I appreciate specially your response to Mr. Lundine's questioning about your recognition that there is a need for housing for low-income people in this country.

On page 4 of your testimony, you note that the moneys in the pipeline will add about 207,000 new families to those who are now being assisted.

Can you give me some idea, just in real rough terms of what you perceive or what does your Department perceive to be the need at this time?

Secretary PIERCE. The need of people who could use housing?

Mr. CARPER. Uh-hum.

Secretary PIERCE. Well, the best we have is what we call a worst-case basis, which really was developed by Senator Garn's committee, and on the basis of a worst-case basis, there are 2.8 million families that need housing. So roughly we're talking about helping 2.8 million families above the number we are helping now.

Mr. CARPER. Roughly, 1 out of 10 families at worst-case?

Secretary PIERCE. Well, I don't know what 1 out of 10 is—2.8 million families.

Mr. CARPER. 1 out of 14.

Secretary PIERCE. I don't know that. I'll just give you the number, 2.8 million.

Mr. CARPER. All right. We will accept that as not an unreasonable number. I think there is an inclination, certainly on my part, and I think on the part of many of my colleagues—

Secretary PIERCE. Incidentally, I might say that OMB gives a worst case basis at 600,000.

Mr. CARPER. All right. That's gives us—in any event, we know that the need is greater than what is being proposed for assistance here.

I think that the members of this committee are going to say that the need is somewhere between 600,000 and 2.8 million, and we want to do something to help them more than what is proposed in the administration's budget. Realizing your desire to be team player, we're still going to be obligated under our budget law to recommend to the Budget Committee what we think should be included in our budget resolution for housing programs. It won't be—I can tell you right now, it won't be the roughly \$1 billion or \$2 billion that is proposed in new budget authority for fiscal year 1986. It may not be \$18 billion or \$19 billion either, as H.R. 1 would

propose, but it may be pretty close to what's in the budget for this year—an appropriation of about \$11 billion or so.

What would be real helpful for me, perhaps for other members of the committee, is to get a sense from you on where we might put our priorities. And I know this may not be an easy question for you, but we're going to have to establish some priorities, and we're going to have to say where we're going to put the money and where we're not. I am prepared to just go down the list and maybe you can say, low, lower, or lowest, but I need some assistance there.

Secretary PIERCE. You put me, indeed, on a spot, but if you're going to do something anyway on priorities, I would—

Mr. CARPER. Yes, we're going to do something anyway, so you may as well—

Secretary PIERCE [continuing]. I would like the vouchers to come back in, and that I think would be very helpful to a considerable number of people—if you're going to do something anyway.

Mr. CARPER. Again, we're going to probably be submitting something closer to what is appropriated this year. The voucher—as I recall, the voucher, currently, we're spending about \$600 million, \$700 million for vouchers. If we decided to come in and fund that at the same level again, that's still going to leave us about \$10 billion that we're going to build into the budget. In terms of where we shouldn't spend the money, maybe that's a better way to ask the question, rather than say where should we spend it, where should we not spend it?

Secretary PIERCE. Well, I will get arguments on this too, but I would say things like the solar energy and the section 312 rehabilitation programs. I'd say areas like that. But again, everybody has their own way of approaching things and evaluating them, but that would be my thinking.

Mr. CARPER. OK. So you've mentioned solar. You don't believe the solar bank is a particularly good way to spend that appropriation.

Secretary PIERCE. Yeah, I think it should be out. I also think that the 312 Rehabilitation Loan Program should be out.

Mr. CARPER. All right. Can you point to some others where you think that we absolutely should not be spending the money?

Secretary PIERCE. Well, I'd rather not. I picked out a couple there, and where I thought—

Mr. CARPER. It would be real helpful, as we approach the time for actually constructing our legislation to have HUD's assistance. I don't know who is the person to give us the information, but if they can just wink and nod or give some kind of signal. It certainly would be helpful to not be building this budget without a bit more participation from you and your Department.

Secretary PIERCE. Well, I think, in time, if your committee and the Congress start to increase the budget, which apparently may happen, there will be a time, I think, for further discussions.

Mr. CARPER. Good. One last question before my time expires.

On lead based paint, and this may be something that you're not intimately familiar with, perhaps someone who is with you is, but as I understand, last summer, your Department published some proposed rules regarding the elimination of lead paint from public housing. I suspect just about everybody on this committee has

people living in our jurisdiction where young children, generally under the ages of 6 have consumed lead paint, and as a result suffered brain damage, which they will carry with them for the rest of their lives. I understand that there are rules that exist today that require the removal of lead paint from buildings where children could be brain damaged by ingesting it. I understand that there are proposed rules to change that, so that instead, we wouldn't be required or the public housing authorities wouldn't be required to correct that situation until we had incidences of children showing up with levels, in some cases dangerous levels, of lead in their blood. And basically, waiting till after children have, I think, been brain damaged, before we move to correct the situation. That causes me a great deal of concern. And I'm hopeful that someone can tell me what the status is of that proposed, I guess it's a ruling or regulation, and how we plan to proceed.

Secretary PIERCE. We've been working with that for sometime. I'll let my general counsel speak to that.

Mr. KNAPP. What we published last summer, I believe, was not a proposed change. It was not a proposed rule. It was technically what we call an advance notice of proposed rulemaking. What it did was solicit comments in response to a number of questions about the current lead-based paint regulations, in terms of different directions in which changes might be proposed, but it did not at that time propose any changes to the rules, nor have we yet actually proposed any change to the current lead-based paint rules.

Mr. CARPER. What do you plan to do next?

Mr. KNAPP. What we plan to do next is to evaluate the comments which we received, which were fairly extensive—a great deal of it was scientific data of the kind, frankly, that we have some difficulty in dealing with ourselves—and ultimately proposing some form of changes in the rules or modifications in the current lead-based paint rules, probably. Possibly staying with what we have. But at this time, we really haven't formulated any proposed changes.

Mr. CARPER. Well, I would hope you would lean towards staying with what you have, and I would ask, if you're inclined to do something different, if you would just give me the courtesy of a conversation, that we might further discuss it, I would appreciate that very, very much.

Mr. KNAPP. Certainly.

Mr. CARPER. Again, Mr. Secretary, thank you for your testimony today, and we'll look forward to trying to work in a cooperative spirit with you.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Mr. Schumer.

Mr. SCHUMER. Thank you very much, Mr. Chairman, and thank you, Mr. Secretary. I am sure you look forward to these hearings every year, and I'm glad you waited around for me to—

Secretary PIERCE. Are you the last one? [Laughter.]

Mr. SCHUMER. They always save me for last. [Laughter.]

Secretary PIERCE. The clock says 12:30. I have got a bad cold. I hope we can get finished.

Mr. SCHUMER. I've got a bad cold, too, Mr. Secretary.

I want to try to keep my questions on a factual basis, with one exception, because I know you're a good teamplayer, but I just want to try to express to you and get your comments on how someone like me feels. We came here together, you as Secretary of HUD, and me as a freshman Congressman. And each year that you've testified before us, you've said, "Look, I'm a good team player. We have to reduce the deficit. And I want to do my share." And we've seen assisted housing go down from \$30 billion to \$6 billion, and indeed, it is the largest overall cut of the social programs in 4 years.

Well, I would feel some consolation, if the deficit were going down, and if all the other programs were being cut, even if not cut as much as HUD. But what happened is that the deficit went from \$60 billion to \$180 billion. It has not been reduced. Next year, whatever we do with HUD, the deficit's going up another, at best, \$10 billion and much more likely \$30 billion or \$40 billion. And each year we cut, cut, cut, until we have almost no cutting left in housing, to reduce the deficit. I have got to think that what you're being part of, and I suppose indirectly in Congress what I'm being part of is not a real move to reduce the deficit, but simply a move to change the priorities in this country and get the Federal Government out of the housing business, regardless of the deficit. Because the deficit isn't going down. Caspar Weinberger yawns, and that makes up for all the cuts we've made in housing.

This year's President's budget is just like that. It cuts social and domestic programs by about the same amount as it increases defense and deficit reduction is not the rationale. So the question I have, do you really think when you follow your orders, which I respect, and the President makes his decisions, that it's done in the name of deficit reduction, after 4 years? The first year I believed it. And the second year I began to get skeptical, but by now—we're not reducing the deficit. You know it and I know it. We're increasing defense spending, reducing taxes as a percentage of GNP, and we're eliminating social programs from the map of America. Now that's some people's priority. It sure isn't mine, and I wonder if it's yours?

You don't have to comment, if you don't want to.

Secretary PIERCE. Well, I don't mind commenting.

Mr. SCHUMER. OK.

Secretary PIERCE. I do believe we're going to have to reduce our budget, we're going to have to fight the deficit problem. I do believe that. I believe that with all my heart. The question is, Where should the cuts be made? And that's, as I said, a call made by the President, in the last analysis, before the budget comes up here. The final call, of course, is made by Congress.

Mr. SCHUMER. Well, it's made in compromise, because the President can veto whatever we do. So it's really a give and take.

Secretary PIERCE. You're right. And he will—

Mr. SCHUMER. He does. He's not afraid of—

Secretary PIERCE. If it goes too far out of the way, he will veto it.

Mr. SCHUMER. But all I'm saying is, the deficit has tripled in the 5 years you've been coming here. Your face, your expressions reveal and your tone reveals that you don't like these cuts, but you're being a good soldier and doing your share. But the deficit

goes up, not down. I don't see any light at the end of the tunnel, do you?

Secretary PIERCE. Well, I certainly hope so. I really believe this has to be done, and I think we're going to have to face this. I don't know——

Mr. SCHUMER. Well, you've been facing it admirably.

Secretary PIERCE. There's no doubt about it.

Mr. SCHUMER. You know, from that perspective you have, from \$30 billion to \$6 billion, you've been facing it, but no one else is. I mean, maybe our country would be a lot better off, if you and Caspar Weinberger switched positions. [Laughter.]

Secretary PIERCE. I don't know about that. I may be caught like Caspar. You know, they used to call him "Cap the Knife," because he cut everything?

Mr. SCHUMER. Yeah.

Secretary PIERCE. He doesn't do that now, does he? [Laughter.]

Mr. SCHUMER. He doesn't. That's why I hope there's a switch. [Laughter.]

We'd cut the Defense budget, and we'd have some housing again.

Let me ask a couple of substantive questions, just on some issues that I'd like to get your opinion on.

One, my colleague from Staten Island, Guy Molinari, has been pushing legislation which allows an economic mix in public housing, middle-class and low-income families together. In New York City, at least, our experience has been, when there is a mix, the housing lasts longer and everybody does better, the very poor and the middle income alike, they're role models, et cetera.

It seems to me that given HUD's view for public housing ownership, homeownership, you know, to try and privatize this public housing, that there be even more of an imperative to have a mix from an economic as well as social point of view.

Do you have any position on Congressman Molinari's bill?

Secretary PIERCE. No, I haven't actually read it yet.

Mr. SCHUMER. I would ask you to. I think it has nothing to do with the economic problems that you face in balancing the budget, or whatever. And it could do a lot of good in terms of public housing throughout the country.

So, if we might, could we leave the record open, Mr. Chairman, and have the Secretary respond to Congressman, the good Congressman, Republican Molinari's bill?

Secretary PIERCE. All right, we'll comment on it.

[At the request of Congressman Schumer, the following additional information was submitted for inclusion in the record by Secretary Pierce:]

RESPONSE RECEIVED FROM SECRETARY PIERCE

The Department is currently in the process of reviewing the ceiling rent proposal introduced by Congressman Molinari. We expect to make a statement on this proposal soon.

[Subsequently, the following letter, dated May 10, 1985, was received from Secretary Pierce containing comments on Congressman Molinari's bill:]



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 THE SECRETARY
 WASHINGTON, D.C. 20410
 May 10, 1985

Honorable Henry B. Gonzalez
 Chairman, Subcommittee on Housing
 and Community Development
 Committee on Banking, Finance and
 Urban Affairs
 House of Representatives
 Washington, DC 20515

Dear Mr. Gonzalez:

At the hearing of the Subcommittee on Housing and Community Development held on March 13, Congressman Schumer asked that I comment on the public housing "ceiling rent" proposal introduced by Congressman Molinari and co-sponsored by several other members.

The provision to which you refer is embodied in H.R. 153, entitled the Public Housing Rent Stabilization Act. A similar, but not identical, provision appears as Section 102(a) of H.R. 1.

This provision would restore the authority of public housing authorities, which was repealed in 1981, to fix "ceiling rents" in order that higher-income occupants of public housing may pay a lesser percentage of their adjusted income as rental contribution than the 30% otherwise required by Section 3(a) of the United States Housing Act of 1937. Specifically, it would authorize the local authority to establish an "appropriate" rent for a family residing in a public housing unit. The statute would prescribe no minimum amount of such rent, but would provide that the "appropriate" rent for the family could not exceed a maximum amount that (1) is approved by the Secretary, (2) is not more than the amount otherwise required by Section 3(a), and (3) is "based on (i) the unsubsidized monthly rents for comparable dwelling units in the area involved; (ii) the average monthly amount of debt service and operating expenses attributable to dwelling units of similar size in public housing projects owned and operated by such agency; or (iii) other relevant factors approved by the Secretary."

(The third factor quoted above is as it appears in H.R. 153. In Section 102(a) of H.R. 1, only the "economic rent" factor described in clause (ii) above is referred to. I take the H.R. 153 version to be the later, now-current version of the proposal, and it is to it that my remarks are directed.)

It is necessary to consider this proposal against a somewhat broader context.

The principal thrust of housing assistance policy in recent years, supported by both the Executive and Legislative branches, has been to target assistance to the most needy, whether defined exclusively in terms of income level or also in terms of other housing problems. This was reflected in the abandonment of the Section 8 new construction and substantial rehabilitation programs which was motivated in part by the extent to which those programs, particularly when coupled with tandem financing and tax-exempt bond financing, subsidized projects where only a portion of the units would be occupied by assisted families, in favor of direct affordability assistance through Section 8 Existing Housing Certificates and vouchers. The thrust is evidenced more directly by the adoption in 1981 of Section 16 of the United States Housing Act of 1937, and in Congressional adoption of preferences for admission to assisted housing in 1979 and further in 1983.

The depth to which this targeting thrust has pervaded our assisted housing policy can also be seen in the way in which the Senate Appropriations Committee, for example, has approached the subject. I'm sure that you are familiar with the approach that has been followed by that Committee during the last few years: one of defining the extent of the needs of the "worst cases" and charting a path for meeting that need over an eight-year period. The Committee defines the "worst cases" in a manner that is similar to the statutory preference provisions I mentioned before: those families below 50% of area median income who are living in substandard units and paying more than 30% of their income for rent (or have an income so low that they cannot afford the Section 8 Existing Housing Fair Market Rent at 30% of income) or who are living in standard units but are paying more than 50% of their income for rent. It is the Committee's estimate of the number of families in this category remaining unserved which has determined the Committee's recommended funding level for incremental units.

The focus of our low-income housing assistance policy, therefore, is a consumer-based program directed at affordability and targeted to those most in need. Nothing raises the fundamental question of how public housing fits within this strategy more starkly than the ceiling rent proposal.

I recognize the desirability of maintaining an occupancy in public housing having a "broad range of incomes," as directed by Section 6 of the 1937 Act. This is evident in HUD's administration of Section 16, which recognizes "local commitment to attaining an occupancy having a broad range of incomes" as a basis for admitting families having incomes in excess of 50% of area median income into the project-based subsidy programs, including public housing. For example, at Mayor Koch's request I recently granted an exception to the New York City Housing

Authority from the regulatory limits on admissions of families over 50% of area median income into projects which have opened for occupancy since 1981. Under the exceptions, the Authority is authorized to admit families whose incomes fall between 50% and 80% of area median income into up to 30% of the units in non-elderly projects and into up to 15% of the units in elderly projects. These exception levels are authorized until September 30, 1985, at which time we will consider extension in the light of information regarding the impact of the exceptions on very-low income families on the waiting list. (At the same time, I denied a request for a similar exception in the Section 8 Existing Housing Program. The policy arguments in favor of a broad range of incomes do not, in my mind, apply to the Finders-Keepers program in the same manner as they apply to the project-based subsidy programs.)

However, I believe that the ceiling rent proposal goes further than is necessary to achieve the objective of maintaining occupancy by families having a range of incomes across the lower-income spectrum. This seems to me to be at least implicit in the exceptions request that was made by Mayor Koch on behalf of the New York City Housing Authority. More importantly, I believe that the proposal is inequitable in that it would grant a greater degree of subsidy to higher-income tenants than to lower-income tenants, and that it is unduly prejudicial to the interests of needier applicant families remaining on the waiting list.

Accordingly, I oppose enactment of the ceiling rent proposal embodied in H.R. 153 or in Section 102(a) of H.R. 1.

To elaborate the Department's position in further detail:

1. Even if a ceiling rent proposal were acceptable in principle, the "economic rent" level suggested as one criterion by H.R. 153 (and as the only one by Section 102(a) of H.R. 1) appears inordinately low. It would violate an historic principle that, subject to "Brooke Amendment" ceilings based on percent of income, higher-income public housing tenants must, to some extent, make up for the net loss suffered on rentals to lower-income tenants. Although these higher-income tenants may "cross-subsidize" lower-income tenants, they are still being subsidized. The amount of subsidy they receive is equal to the difference between the rent they would have to pay for a comparable unsubsidized unit and the rent they actually pay in public housing. (The next paragraph addresses the circumstance where the unsubsidized rent is less than the tenant's public housing rent.) Further, by basing the "economic rent" on an authority-wide average rather than on a project basis, occupants of newer projects with higher debt service (and probably better physical condition) would receive an even greater benefit than occupants of older projects. Finally, the formulation is unworkable in any event, because most authorities lack data from which they could relate authority-wide operating expenses, much less debt service, to unit size.

2. While a ceiling rent related to the "unsubsidized monthly rents for comparable dwelling units in the area" may appear more equitable, this formulation also raises more sharply the question of the fundamental rationality of the proposal. For purposes of analysis, assume that the "unsubsidized monthly rents for comparable dwelling units" are equal to the Section 8 Existing Housing Fair Market Rents. Those amounts represent that level of rentals below which one finds the rentals charged to recent movers for 45% of all standard units in the market area. A family that can pay the FMR with 30% of adjusted income or less is a family whose income is too high to be subsidized under Section 8. What theory of the purpose of public housing justifies increasing the subsidy of a family at this income level - or higher - in order to provide it an incentive to remain in public housing while needier families remain on the waiting list?

3. Further analysis of the relationship between Section 8 Existing Housing FMRs and median incomes suggests that the "pricing out" effect of the 30% rent-to-income ratio, if it occurs at all, is likely to affect only the very top of the "lower-income" range (i.e., at or close to 80% of area median income, if not above). (It should be remembered that while there are statutory income limits on admissions, there are none for continued occupancy. Families whose incomes rise above 80% of area median income are not forced out automatically by that fact but only by rising rents.) While in most areas a family at 80% of area median income can meet the Section 8 Existing FMR with less than 30% of adjusted income, at 65% of area median income that is roughly equally likely not to be the case. Of the 56 metropolitan areas included in the American Housing Survey, a three-person family at 80% of area median income, adjusted for family size, could meet the Section 8 Existing FMR for a two-bedroom unit with less than 30% of adjusted income in 53 areas, and a three-person family at 65% of area median income, adjusted for family size, could meet the FMR with less than 30% of adjusted income in 34 areas.

4. It is important to translate the foregoing data into terms relating to working families. The income level of the lowest-paid working families generally falls in the lower half of the band between 50% and 80% of area median income, not the upper half. In fact, the American Housing Survey and Current Population Survey data show that many households with incomes between 30 and 50 percent of area median income have income based on earnings and two adults in the family - the traits conducive to contributing to social and physical stability of public housing that are sometimes erroneously described as limited to higher income families. If the point at which families tend to be "priced out" of public housing is where their income-based rents become roughly equal to the Section 8 Existing Housing FMR, then we can see that this occurs, in most areas, at a point somewhat above the income level of the poorest working families. The ceiling rent proposal, therefore, is not necessary in order to achieve the objective of retaining occupancy by a fair representation of working families.

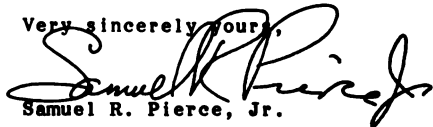
5. In fact, the foregoing analysis suggests that if the proposal is to have any real impact, the ceiling rents might have to be set at a level substantially below that of the Section 8 Existing Housing FMRs. Statements by supporters of the proposal indicate clearly that its intent is to reduce high turnover which, they assert, occurs in "areas where comparably priced housing has been available in the private sector" (statement by Mr. Molinari, 131 Cong. Rec. E246 (January 30, 1985)). Achievement of this objective would seem to require that rents for the higher-income tenants be set at levels below that of comparable units in the private sector. As indicated above, the proposal, as written, clearly would permit public housing agencies to do just that, inasmuch as no minimum rent level is stated, only a maximum. Such a result, of course, only increases the inequity of the proposal, particularly in relation to very low-income families on the waiting list.

Let me summarize my views. I believe in the desirability of maintaining occupancy in public housing projects of families having a "broad range of incomes" across the low-income spectrum, including working families, as demonstrated by my action on the recent New York City request referred to above. I believe, however, that that objective can be achieved adequately without resorting to additional incentives to prevent families who have affordable choices in the private market from making them. And I believe that to offer such incentives would be to distort the purposes of the public housing program in unfairness to needier families on the public housing waiting list.

I request that a copy of this letter be added to the record of the hearing. I am sending similar letters to Congressman Molinari; to Congressman Schumer and the other co-sponsors of H.R. 153; and to Congressman McKinney, the Ranking Minority Member of the Subcommittee on Housing and Community Development.

The Office of Management and Budget has advised that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Very sincerely yours,


Samuel R. Pierce, Jr.

Mr. SCHUMER. The second question I had is, in our H.R. 1, we have a program that I've had a great deal of interest in, which is the Nehemiah Housing Program. As with HoDAG, what we've tried to do is eliminate some of the objections that you, correctly, I think, had to the Section 8 Program. Incidentally, the figures that were given before on HoDAG were indeed correct, and it does not include a voucher.

In other words, the cost of vouchers over 20 years and the cost of HoDAG is about similar. So I take strong exception to your testimony where you knock HoDAG and say vouchers are terrific when the costs are virtually the same and with HoDAG, we get new housing, and we can target it to neighborhoods to help bring entire neighborhoods back.

Secretary PIERCE. Yes, but there's a lot of other things wrong with HoDAG.

Mr. SCHUMER. Well, OK, but that's not what your testimony points to.

Secretary PIERCE. No, my testimony, I think, points to some of that.

Mr. SCHUMER. You said:

HoDAG is an expensive way. We estimate that, overall, 60 percent of subsidizing market rate units, 40 percent of subsidizing lower income units, the net effect is the cost of \$76,000 to provide a lower income HoDAG unit.

Now that is an up front grant but it's over 20 years. Your voucher is \$3,500. With no inflation rise over 20 years, comes to the same price.

Secretary PIERCE. That's not with the voucher.

Mr. SCHUMER. And what you said is, well, HoDAG adds in vouchers. It doesn't. That \$76,000 includes the supplementary assistance.

Secretary PIERCE. But you have things like this with the HoDAG, only 40 percent of the people who live in those buildings qualify for assisted housing; 60 percent of the units in those buildings are rented at market rates.

Mr. SCHUMER. Yes, but they're subsidizing the low-income people. That's something you would keep.

Secretary PIERCE. Someone could make a million dollars and still stay in a HoDAG building. And there is also the targeting. The targeting is not as sharp as I would like it. But these are different. I mean, these are things that—

[At the request of Congressman Schumer, the following additional information was submitted for inclusion in the record by Secretary Pierce:]

RESPONSE RECEIVED FROM SECRETARY PIERCE

COST COMPARISON: HODAG AND VOUCHERS

HoDAG subsidizes a "package" that consists of lower-income units with a set rent and market rate units (three-quarters of the HoDAG units are market rate). The funded HoDAG projects require an upfront subsidy of \$76,000 to get one lower-income unit (calculated by taking the total amount of HoDAG funds and dividing by the number of lower-income units). However, the total development cost to produce one HoDAG unit (either lower-income or market rate) is only \$51,000. The difference between the subsidy to the lower-income unit and the total development cost per unit indicates that some of the HoDAG subsidy goes to the market rate units. Market rate units do not subsidize lower-income units.

In contrast, vouchers subsidize lower-income units in the form of annual rental subsidies. To compare an annual subsidy to an upfront subsidy, the annual subsidy must be converted to a present value measure i.e., the stream of payments over the years must be discounted to the present. The HoDAG program requires that the lower-income units remain such for 20 years, so to be comparable, a voucher must be discounted over 20 years (even though its "life" is only five years).

The present, value of a series of annual voucher payments of \$3,500 (paid monthly) over 20 years is \$30,200, assuming a discount rate of 10 percent.¹

Therefore, the cost of a lower-income unit under the voucher program, when calculated to provide the comparison with HoDAG, would be \$45,000 less than the cost of a HoDAG lower-income unit.

HODAG AND VOUCHER COSTS

The funded HoDAG projects require an upfront subsidy of \$76,000 to obtain one lower-income unit for 20 years. To allow a comparison with the upfront HoDAG subsidy, a voucher subsidy, involving an annual payment over a period of years, must be converted to a present discounted value measure. The present value of a series of annual voucher payments of \$3,500 (paid monthly) over 20 years is \$30,200, assuming a discount rate of 10 percent.

HoDAG subsidy: \$76,000.

Equivalent Voucher Subsidy: \$30,200.

Mr. SCHUMER. In your testimony before the Budget Committee, you praised the HoDAG Program. I'm on the Budget Committee and——

Secretary PIERCE. I didn't praise it.

Mr. SCHUMER. Oh, I think you did.

Secretary PIERCE. No, no, no. No, no.

Mr. SCHUMER. OK, well, I will check that. But I believe the written testimony will show——

Secretary PIERCE. I didn't praise HoDAG.

Mr. SCHUMER. Oh, you said it worked, but you said it was a 1-year attempt to deal with the problem.

Secretary PIERCE. There was more to it than that. Read the whole thing.

Mr. SCHUMER. And that's all you said. I'll read that testimony into the record, and it clearly indicates that you cited HoDAG as one of the administration's accomplishments.

But, in any case, what I would say to you on HoDAG, very simply, is it is a program that almost everyone concedes to be cheaper and to work. It is no more expensive than vouchers. And, again, one wonders what commitment there is to housing overall when a program like HoDAG——

Secretary PIERCE. Also, let's take another thing. HoDAG takes time to build. With a voucher, you can get people into housing immediately.

Mr. SCHUMER. You bet. But HoDAG is building new housing. A voucher isn't.

Secretary PIERCE. That's 3 to 4 years.

Mr. SCHUMER. HoDAG is building new housing, Mr. Secretary, as you know. A voucher isn't.

Secretary PIERCE. But the thing is we don't need that much new housing on the whole because we had that study made by the Rand

¹ That is, one would need to put \$30,200 in the bank in an upfront lump sum at 10 percent to assure having enough funds to make monthly payments of \$3,500 a year, each year years. If we also assume a 3 percent per year increase in the voucher payment, the value over 20 years becomes \$37,600.

Corp. where they say there is no shortage of rental housing nationwide.

So, my God, we don't need it. What do we do, just build houses to build houses?

Mr. SCHUMER. I think you are in the strong minority of a kind that's left-right and——

Secretary PIERCE. No, you tell me. You tell me a study that matches the Rand study. When you start telling me facts, then I'll start listening to you.

Mr. SCHUMER. I'll tell you facts right now, Mr. Secretary, if I have the time. Just in the testimony that the League of Cities made before us, if someone could just hand it to me, they pointed to the fact that there are 7.1 million families living in substandard housing and paying more than 30 percent of their income as rent. That's in 1980 from the census. Is that fact? Is Census OK?

Secretary PIERCE. That is a fact as you have it but I'd have some questions.

Mr. SCHUMER. The census.

Secretary PIERCE. I'd have some questions on how they compute that, but that's all right.

Mr. SCHUMER. You asked me for a fact. If you don't accept the census, I don't know what we could accept.

My time has expired. I just——

Secretary PIERCE. Do the census people go around and say, "Do you live in substandard housing"?

Mr. SCHUMER. No, no, no, no, no.

Secretary PIERCE. Is that what happens with the census people? I didn't know they did that.

Mr. SCHUMER. Let me read to you——

Secretary PIERCE. Is that what happens with the census people? I didn't know they did that.

Mr. SCHUMER. Yes, well, they asked them if they have toilets. They asked them if they have heat. They asked them if they have running water.

Now you may not consider lack of those things substandard but the vast majority of Americans do.

Secretary PIERCE. And that's the basis on which they did it, huh?

Mr. SCHUMER. That's the basis. It's an absolute survey of all of America. And you can stick your head in the sand and say it doesn't exist, but it does. You may say that the deficit takes a higher priority than housing those people. That's a value judgment and I can't dispute you on that except to say my values are different.

When you say that we don't have a need for housing——

Secretary PIERCE. No, I didn't say that. Wait a second. I never said we don't have a need. It's a question of how we have to sacrifice to get what I think is an ultimate——

Mr. SCHUMER. That's different from what you just said before.

Secretary PIERCE. No; I never——

Mr. SCHUMER. You said we don't need new housing, and that's why HoDAG wasn't necessary.

Secretary PIERCE. No; I didn't. I said that we have enough rental housing to handle the situation. If we have a small building program and rehabilitation program, that will take care of it.

The thing I don't like about HoDAG, I don't think it's precise enough.

Mr. SCHUMER. In what—

Secretary PIERCE. I think it gets too many other people into the building beside poor people.

Mr. SCHUMER. But one of the attractions is that it builds an economic mix and is less expensive. And in many cases, the middle-income people subsidize the poor people so the Government won't, which helps with your deficit problem. You can't win.

I yield—

Secretary PIERCE. No; I don't think so.

Mr. SCHUMER. I can't win anyway.

Secretary PIERCE. Well, you can't win—

Mr. SCHUMER. That's for sure. People of my view can't win. Right.

Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman GONZALEZ. Mr. Secretary, there are a couple of members of the subcommittee—

Secretary PIERCE. Sir, I've got a bad cold. Would it be possible for them to send me written questions?

Chairman GONZALEZ. I was going to ask you, if you were willing to remain but you've answered the question. I think you have been patient enough. You came here at 9:30 promptly. It is now 12:50. It is reasonable.

The only thing is that on the request of these members, I thought I would ask you if you thought you had enough time to answer briefly their questions. But, obviously, you are restricted. And I would suggest that the members submit their questions for the record.

Mr. VENTO. Mr. Chairman?

Chairman GONZALEZ. Yes.

Mr. VENTO. Mr. Chairman, can the Secretary come back personally to answer our questions in the near future?

Secretary PIERCE. Oh, come on.

Chairman GONZALEZ. Of course, we have invited the Secretary. In fact, even this time, for a while there, we thought maybe perhaps he'd be unable to come in today. Then, in the meanwhile, the House and the Senate decided to recess for this entire week.

So we went through our hearings because we had asked numerous witnesses, some who traveled good distances, and we thought we'd go ahead and take the risk of few members showing up. But, I'm glad to say many did.

What I'm saying, Mr. Vento, is that we are always very anxious to have the Secretary come before this subcommittee. But we also always must recall that we don't subpoena. We invite. And that depends on you try to make the arrangement and if the Secretary wishes.

I'm sure that we will be requesting and inviting the Secretary to return before the subcommittee. But what I'm speaking of has immediate pertinency to his ability. He may be willing, but he may feel quite unable to proceed at this time and prolong his stay here beyond a reasonable and fair time.

Yes, in answer to your question, we do intend to invite the Secretary to come before our subcommittee. In the meanwhile, I

have suggested very strongly, and urged very strongly, that we submit our questions—I am—in writing for the record in time for the Secretary to review the transcript and modify and delete and answer the questions.

I want to thank you.

Secretary PIERCE. I would appreciate that, Mr. Chairman, because I've got a very bad cold and I've been here since 9:30, and I—

Chairman GONZALEZ. I appreciate that situation and I very much appreciate your presence and your cooperation with the subcommittee and hope you overcome the cold quickly.

Secretary PIERCE. Thank you.

Chairman GONZALEZ. Thank you, Mr. Secretary.

The subcommittee stands adjourned until tomorrow morning at 9:30 in this hearing room.

[Whereupon, at 1:55 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Thursday, March 14, 1985, the following morning.]

[The following additional questions were submitted to Secretary Pierce by Chairman Gonzalez and members of the subcommittee and appear along with the responses of the Secretary:]

QUESTIONS FROM CHAIRMAN GONZALEZ TO SECRETARY PIERCE

Question 1. Mr. Secretary, the combined impact of the Administration's proposed 10 percent reduction in the CDBG program and reduction in the urban share from 70 to 60 percent is a standard urban grant reduction of 23 percent.

Has your Office of Policy Development and Research studied the impact of this proposal on all or any of the approximate 700 entitlement—urban—communities?

Mr. Secretary, how many of these cities have surpluses and how many would replace the federal funds?

Answer. The Office of Policy Development and Research has not analyzed the reduction in Community Development Block Grant funds and its relationship to State and local surpluses for each of the entitlement cities. It is the case that the combined effect of the 10 percent reduction in CDBG and the 60-40 split in funds with State CDBG (in order to compensate for elimination of FmHA rural development programs) would reduce awards for each entitlement city by 23 percent. State programs would also be reduced by 23 percent, reflecting the combined changes in CDBG and FmHA. Overall, the Community Development Block Grant program (for States and entitlement cities) is being reduced by \$347 million. Funds for entitlement cities are reduced by \$537 million.

However, aggregate surpluses expected to be available to state and local governments exceed these reductions. The latest Treasury projections' (March 14, 1985) estimate the 1986 combined State and local surpluses to be \$19.5 billion, with other estimates ranging from \$15.1 to \$21.5 billion. We recognize of course that State and local governments will not carry these amounts as surpluses, but will use the fiscal capacity they provide either to lower taxes or to increase services in order to keep their budgets in balance. HUD is now putting together an urban data base which will be able to track these local fiscal situations in the future.

Question 2. Mr. Secretary, the Administration's basic premise behind the proposal to terminate UDAG is that the program does not create or expand economic activity, it merely redistributes. According to Margaret B. Sowell, Director of the UDAG Office under the Reagan Administration between 1981 and 1984, the termination ignores the uneven distribution and imbalances of the economic recovery, the lack of resources available to many cities, and the positive mutual benefits that can result when the public and private sectors work cooperatively to carry out development projects.

The basic question is whether UDAG creates economic activity and jobs in distressed communities which wouldn't happen—does it?

Answer. We don't deny that the UDAG program stimulates job creation and investment in qualifying cities which would not have occurred without the program. The 1981 evaluation of the program by my Office of Policy Development and Re-

search found that 80 percent of the actual jobs and 87 percent of the actual private investment would not have occurred without the program, and these percents have probably improved following management reforms we instituted.

However, the basic issue is that we must take steps to reduce the Federal deficit. To do this, the Administration has made a basic decision to eliminate Federal financing and grant programs for local economic development. This, and the fact that overall improvement in the national economy has generally resulted in improved local economies, are the reason we are proposing elimination of the UDAG program.

Question 3. Mr. Secretary, I assume the reduction in budget authority reflects the limitation on additional new construction units, included in your chart, a greater emphasis on existing units and the elimination of tax exempt financing for public housing bonds. Since newly constructed units are to remain available for low income tenants for 30 years and the budget authority reflects the assistance needed for that time period but the contracts for vouchers only reflect five years of budget authority and the existing Section 8 program reflect only 15-year budget authority, would you provide another chart for this committee showing the total budget authority necessary if we were to extend the voucher and Section 8 existing programs for the full 30-year period?

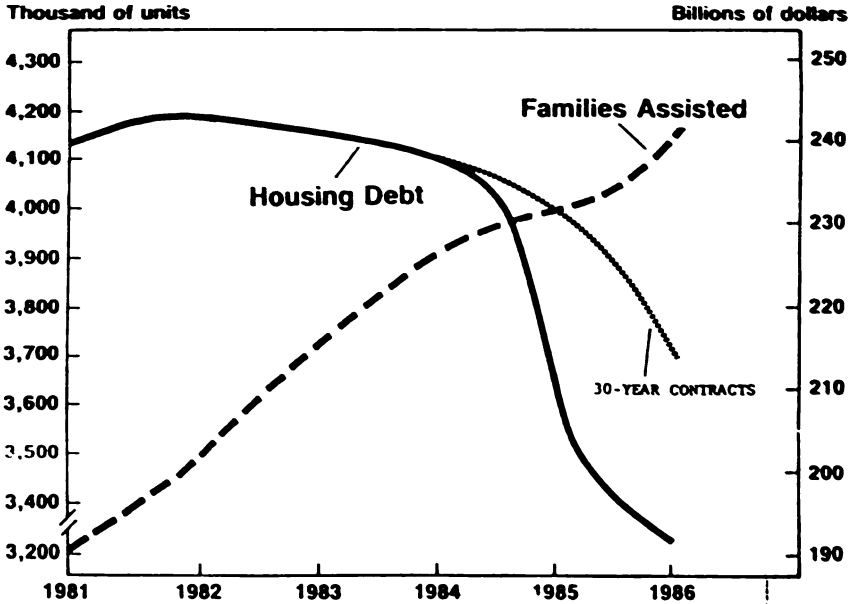
How would the chart be changed if Congress requires a return to tax exempt financing for public housing?

Answer:

INCREASING CONTRACT TERMS TO 30 YEARS

The following chart shows the change in the Housing debt calculation if all vouchers and existing units in the pipeline were extended to a thirty-year period. The downward trend in housing debt would continue under this scenario—although, of course, not as sharply as before—since existing units and vouchers are less expensive than new construction, whatever the term.

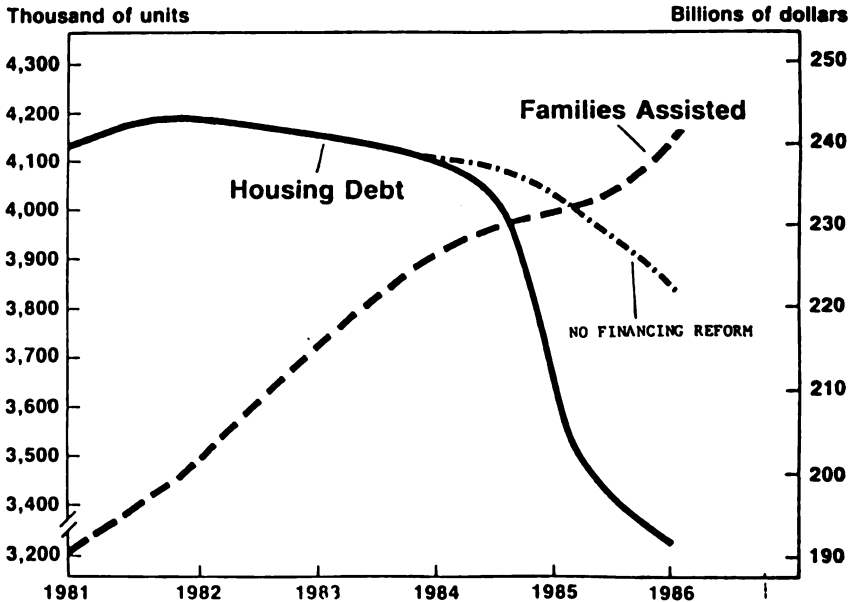
**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
SUBSIDIZED HOUSING PROGRAMS
NUMBER OF FAMILIES ASSISTED AND HOUSING DEBT
1986 BUDGET**



FAILURE TO ENACT FINANCING REFORM PROPOSALS

A return to tax-exempt financing, per se, for public housing, would have little impact on the chart based on 1986 budget proposals. We assume that what was really meant by the question was the impact on the chart if the debt forgiveness proposals were not enacted. This is displayed in the following chart.

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
SUBSIDIZED HOUSING PROGRAMS
NUMBER OF FAMILIES ASSISTED AND HOUSING DEBT
1986 BUDGET**



Question 4. Mr. Secretary, the Administration's fiscal year 1986 budget proposes to eliminate the housing programs of the Farmers Home Administration and give HUD the responsibility to administer rural and urban housing programs in fiscal year 1988. Please tell the committee how effective HUD's programs have been in the past in serving rural areas.

Answer. More than 355,000 housing units in non-metropolitan areas have been added to HUD's inventory of assisted housing over the past six years (FY 1978-FY 1983). For this period, HUD allocations to non-metropolitan areas under the Section 8, Public and Indian Housing, Section 202 Direct Loan and Section 235 Homeownership Programs averaged slightly more than 23 percent of total allocations.

The new Housing Voucher program will be administered by over 2,000 local PHAs in rural as well as metropolitan areas, so that quality service already exists for non-metropolitan areas. To make sure vouchers work in these areas, a Small PHA/Rural Area demonstration is underway. Three thousand of the FY 1985 vouchers will go to this demonstration.

In the FHA program over the last four years we've looked for additional ways in which we can help those living in rural areas. Some things that we think will be beneficial include the Direct Endorsement program and the fees that are now paid to real estate brokers who help bring lenders and homeowners together.

The Direct Endorsement Program should have a significant effect on the availability of FHA programs in rural areas by making FHA insurance more attractive to commercial banks. This will be particularly helpful in rural counties which have no S&Ls. Fifty-seven percent of FHA single family business now uses Direct Endorsement.

In addition, under the Direct Endorsement program, loan correspondents may now order appraisals, prepare loan applications and close loans on behalf of Direct Endorsement approved lenders. Because many loan correspondents originate loans in rural areas, this change should increase the program's ability to make FHA insured loans easily available in rural areas.

We also have proposed reductions in the downpayment requirements for modestly priced homes and revised the Title I regulations in ways which should increase the effectiveness of our programs in non-metropolitan areas.

In 1984, HUD proposed rules to reduce the minimum downpayment requirements for properties with appraised values of \$50,000 or less. For a home valued at \$50,000, these new requirements will reduce the minimum downpayment from \$2,000 to \$1,500. This should benefit families in rural areas, where housing is generally lower-priced.

During 1984, the Department published a comprehensive revision of the Title I program regulations. These changes are expected to increase the number of loans in the rural areas of the Southern and Western sections of the United States by making manufactured home loans more affordable. The maximum loan for new manufactured homes is being increased to a higher percentage of the factory wholesale cost. Reduced downpayment requirements will permit more first-time homebuyers to obtain a manufactured home loan. For the first time, existing manufactured homes, which were not previously financed by HUD, can be purchased using Title I financing.

What has CDBG done for rural areas?

Perhaps the best way to answer this question is to quote directly from a report prepared by the National Association of Towns and Townships—a public interest group which represents local government officials from more than 13,000 small communities across the country.

"Based on the information presently available, communities under 2,500 that fared well under the HUD-administered (CDBG) program, have received even greater benefits under the state administered (CDBG) program. "These smaller communities have increased their share of total grant awards, total dollars, percentage of grant awards, and percentage of grant dollars in those states that took over the "small cities" (CDBG) program. . . . small communities not only made notable gains in these areas from 1981 (the last year of HUD administration) to 1982, but that the trends continues, at least modestly, in the second year of state administration." "The number of grants (made to cities of less than 2,500) gained 141 percent . . . (this increase) represents the success of many states in encouraging small town participation.

"State administration of small cities' funds also resulted in substantial shifts in the activities for which grant funds were awarded." The change in program emphasis from housing to public facilities . . . corresponds to spending priorities that were identified by localities before the CDBG program was transferred. A study of small community development needs conducted by HUD in 1978 concluded that public facilities was by far the greatest concerns of local officials."

As you can see, the States currently administering the program have been able to make the program responsive to the needs of their smaller, most rural communities. States have worked diligently with local officials to design programs that meet the most pressing needs of those communities. The states have worked hard at reaching out to the rural areas to ensure they receive an equitable share of this valuable resource.

Question 5. Is the Housing Voucher Program effective in rural areas? Please tell the committee how many vouchers have been issued in rural areas to date?

Answer. We are confident that Housing Vouchers will meet or exceed the record of effectiveness established by the Section 8 Existing Certificate program in rural areas over the years. Because of our particular interest in evaluating Housing Voucher effectiveness in rural areas, we designed the Small PHA/Rural Area demonstration that I mentioned earlier. Approximately 40 PHAs will be invited to participate in this demonstration. Increased opportunities for rural areas to apply for participation in the Housing Voucher program may also be provided when Regional Offices invite applications for the portion of Housing Vouchers they receive under the FY 1985 formula allocation.

Question 6. Mr. Secretary, last week a number of witnesses representing organizations for the handicapped criticized the regulations proposed by the Department to provide guidelines regarding impermissible discrimination against handicapped. Their basic criticism was that the regulations were demeaning, showed a lack of respect for handicapped people and were basically a guide how to discriminate.

What steps do you plan to take to improve those regulations so that they are as enlightened as regulations issued by other federal agencies?

Answer. I don't accept the suggestion that our proposed regulations are "demeaning," show a "lack of respect," or are less "enlightened" than those of other agencies. The subject matter of the 504 regulations is one on which emotions can run high, and the balancing of competing interests in this area can prove to be very dif-

ficult. I appreciate the depth of conviction and the sensitivity with which the disability community approaches these issues, and I don't claim that our proposal was perfect, but I believe it was more responsible than those criticisms would indicate.

We received a total of 1,258 comments on the proposed rule. Many of these comments raise difficult and complex issues, particularly regarding the full participation of the mentally handicapped in multifamily housing assisted by the Department. HUD-assisted housing is frequently owned by small entities, including non-profit organizations, that have little or no experience in evaluating applications for housing made by handicapped individuals. We therefore consider it important that the regulations provide adequate guidance to housing providers on this subject that would protect the interests of the handicapped as well as other tenants and owners of HUD-assisted housing. The initial draft of a provision dealing with this subject which was referred to in testimony before this Subcommittee was prepared after publication of the proposed rule and was prompted by the large volume of comments relating to our definition of an "otherwise qualified handicapped person" in the context of qualification for residency in a multifamily project. This was the first attempt, by us or any other agency to my knowledge, to deal with a highly sensitive question not previously addressed, and we believe that its resolution will require further open dialogue among HUD, the disability community and providers of HUD-assisted housing. We distributed this first attempt to disability organizations and to major housing providers, including some large housing authorities. As you may know, we previously had made available to all interested persons, free of charge, our internal summary of public comments. In fact, we've distributed over 700 copies of this comprehensive 55-page summary. Furthermore, our Section 504 Task Force, comprised of high level representatives of major elements of the Department, has on two occasions met with representatives of major disability organizations. We've also received important and valuable comments from housing providers around the country. As you might expect, these comments do not always coincide with those of the disability organizations, but we hope to be able to achieve a fair balance of these competing interests in our final rule that is fully reflective of the mandates of Section 504.

Question 7. Mr. Secretary, with regard to the Manufactured Housing Construction Standard Program, are you aware that companies building manufactured housing hire, pay and fire the inspectors that visit the plants to assure compliance with federal standard?

How can any inspector maintain his objectivity under those conditions?

Wouldn't it be better for HUD to pay the inspectors and to assign them to inspect plants on a random rotating basis?

Answer. Inspectors hired by manufacturers are used only in those states that do not have state inspection agencies. In all cases, inspectors are conditionally approved by HUD and their performance is monitored by the Department's contractor, the National Conference of States on Building Codes and Standards (NCSBCS) to determine adequacy of oversight and uniformity of enforcement. Approval of inspectors is extended where performance is adequate and withdrawn if not.

An average of two inspections each year in each factory are performed by NCSBCS teams to evaluate the performance of production inspectors. Evaluations are also made at the headquarters of each Design Approval Primary Inspection Agency and each Production Inspection Primary Inspection Agency. On the basis of this monitoring, NCSBCS makes recommendations to extend approval or disqualify each inspection agency each year. The Department's staff evaluates these recommendations, holds hearings as required, and makes final determinations as to approval or disqualification. Although the Department is always looking for ways to improve this system, we believe that the present system has proven effective in maintaining quality-control in the manufactured home factories.

Question 8. Mr. Secretary, how much money would be available from loan repayments in the Section 312 Rehabilitation Program in Fiscal Year 1986?

Answer. Approximately \$81.2 million would be available for loan obligations.

Question 9. Are you aware that under HUD's Energy Conservation Standards for Manufactured Homes, homes located in snowbound Lake Tahoe are only required to meet the same standard as those located in Death Valley? Does that make sense to you? What steps will you take to assure the energy use of manufactured homes receiving FHA Title II insurance is no greater than similarly sized site-built homes eligible for Title II insurance?

Answer. The present standard uses a three-zone concept, i.e., the U.S. is divided into three separate geographic regions with separate thermal requirements for each of the three regions. Some cities differ considerably from the typical winter conditions experienced by most other cities within the region. To narrow the differences

would require dividing the country into several geographic areas with separate thermal requirements for each of the areas. In any geographic division there could always be isolated cases like Lake Tahoe and Death Valley, which do not represent the typical winter conditions of the region.

Adopting a multizone approach would have several drawbacks. Manufacturing processes would be disrupted for certain plants by requiring them to build to requirements for multiple zones. In addition, manufacturers have no control of the specific homesite and HUD has no enforcement mechanism to ensure that homes are located in accordance with their thermal design criteria under the present three-zone system. Establishing a system with more zones would create a serious enforcement problem.

The Secretary's National Manufactured Home Advisory Council, home manufacturers and retailers have endorsed the three-zone concept because of marketing limitations, resulting in cost impacts, and to avoid disruption to manufacturing practices.

In response to your second question, considering the tightness of construction and other related factors, there is no significant difference between the estimated energy use of a manufactured home built to Title II requirements and the estimated energy use of site-built homes eligible for Title II insurance. The site-built home, to be eligible for Title II insurance, has to conform to the thermal energy requirements as specified in the Minimum Property Standards (MPS).

QUESTIONS FROM CONGRESSMAN LUNDINE TO SECRETARY PIERCE

Question 1. Section 202 Occupancy Requirements (Low-Income Targeting): In 1981, Congress established a national goal of targeting 95 percent of the units in new HUD-subsidized housing facilities to very low income families. Recognizing the need for flexibility in implementing this goal, the Conference Committee which established the statute stated "The Conferees, by establishing national percentage limitations, do not intend that each lower income housing project or each individual program be limited to the specified percentage." Despite a colloquy last year between Senators Garn and Hatfield reiterating Congressional intent, HUD has not revised its rigid regulation requiring that all new Section 202 assistance be provided to very low-income families. Why?

Answer. In order to meet the national goal of 95 percent very low-income admissions to units first available after October 1, 1981, the Department established a system of allowing admission of families between 50 and 80 percent of median only by exception. Thus, a section 202 project that has insufficient very low-income applicants to fill its units may request the number of exceptions needed to sustain occupancy. By restricting admission in general to very low-income families, we build a "pool" of exceptions that can be used by projects with an actual need to rent to families with incomes up to 80 percent of median, and to assist lower income families who have a documented need—for example, families who are displaced by Rental Rehabilitation activity. In this way individual projects are not bound by the 95 percent requirement, but may request the actual number of exceptions required by their particular circumstances. This system allows us to assure that we meet the national requirement while directing the exceptions to projects where it cannot be met.

Question 2. Shared Housing: When HUD refused to provide rent subsidies to elderly individuals for shared housing arrangements, Congresswoman Mary Rose Oaker and I successfully persuaded Congress to make minor technical changes in the Section 8 existing and moderate rehabilitation programs so that elderly recipients of housing assistance could share housing with elderly homeowners. Now I see that HUD has taken this straightforward change and turned it into a short-sighted vehicle for cutting the budget by forcing both the elderly and nonelderly to double up in HUD-assisted multifamily facilities. This is a clear violation of Congressional intent. What is HUD doing to correct this misinterpretation?

Answer. First, let me say that under the rule the Department has proposed for shared housing, the option to use shared arrangements will be totally voluntary. Shared arrangements will be initiated only at the request of the households involved, and only when the PHA and the project owner is willing to permit it. No families, elderly or nonelderly, presently occupying units in assisted housing will be asked to double-up in order to keep their unit.

Shared housing can benefit many families who are not elderly or handicapped, particularly single-parent families. Support for shared housing has come from advocates of women's concerns who see this arrangement as having advantages for female-headed households as well as those working in behalf of elderly int

addition, wider eligibility will allow elderly families to participate in intergenerational living arrangements with younger families and will allow elderly homeowners to rent shared space to younger families receiving Section 8 assistance. We do not believe that shared housing is barred by any provision of the Section 8 statute, nor do we believe the statute limits eligibility to the elderly. As a matter of fact, PHAs have had the discretion to permit shared arrangements in their projects since at least 1979. In the Section 8 Existing and Moderate Rehabilitation programs, it has been regulatory requirements, not statutory provisions, that have prevented shared housing other than specialized group-home type arrangements.

The Department recognizes that there have been a number of legislative proposals on shared housing, some of which were limited by the legislative language to single-family homes occupied by owners, or were otherwise different from the Department's proposed rule. Sharing in multifamily projects has been contemplated in at least one of these bills. In introducing H.R. 6015 (the Shared Housing Residence Assistance Act) in March 1982, Congressman Roybal specifically referred to shared housing as including "a multifamily housing project", although his bill did envision at least one of the individuals in the shared arrangement being elderly or handicapped. The definition of shared housing in the Department's proposed rule, which does not limit sharing by type of housing or age of participants, is based on a definition used by the National Shared Housing Resource Center, which has been a national leader in promoting the concept. We have had a good deal of public comment on the shared housing regulation and we will be taking all of it into consideration in developing the final rule. It is our intent to structure the regulation so that the option is available to those who wish to use it, while the right of all tenants to choose their living arrangements is respected.

Question 3. Congregate Housing: We in Congress asked for an evaluation of the Congregate Housing Services Program by May of 1984. Although a draft report has existed since the middle of last year, I understand that the evaluation remains incomplete and will not be available for several months. When can we expect to see a final evaluation from your Department?

Answer. HUD received the draft evaluation this month (March, 1985), not last year. During the evaluation period, interim reports were made available to the Department, but these were only parts of the evaluation, thus, overall conclusions could not be drawn from them. The draft evaluation is now under Departmental review, and the evaluation results will be considered in determining the future direction of the program. After our review has been completed and the evaluation is in final form, it will be made available to the Congress.

QUESTIONS FROM CONGRESSMAN VENTO TO SECRETARY PIERCE

Question 1. I'm aware that HUD has received questions, throughout this 7 month period, both by phone and in writing from Amhoist workers and their labor organization. Have you provided written substantive responses to these questions? Please provide the subcommittee with these responses.

Answer. I understand that HUD staff was contacted on three occasions by Amhoist workers or their union. Two phone calls were received on October 24, 1984 from Amhoist employee William Derry by Robert Wulff and David Sowell of the UDAG staff, and a letter dated January 16, 1985, was received from Leo Walter and John Hearle of District Lodge No. 77, International Association of Machinists. The Department did not respond in writing.

Question 2. Has the Department initiated any contact with Amhoist workers or their labor organization? If so, when?

Answer. The Department did not initiate any contacts with Amhoist employees or their union.

Question 3. Has the Department attempted to utilize any information from Amhoist workers or their labor organization concerning the possible relocation of jobs and facilities that could result from this UDAG and its significance?

Answer. We did not receive information from Amhoist workers or their union that was different from what we received from other sources, including your office. We utilized all of the information received from all sources.

Question 4. Have you attempted to verify the information your Department has received from Amhoist with workers or the worker's labor organization? If so, when? Please provide this subcommittee with documentation to support your answer to this question.

Answer. As indicated in response to a previous question, HUD staff did not initiate any contacts with Amhoist workers or their union. We did not attempt to utilize

the employees or their union as a source of verification of information received from other sources.

Question 5. What is the methodology being used in this investigation? When was it adopted and who approved it?

Answer. The "methodology" used is the normal application review and inquiry process used to determine these and other relevant facts regarding UDAG applications. It relies on written inquiries, telephone inquiries, and face-to-face meetings with sources in possession of the material facts. There was no special, unique methodology created or approved for this matter.

Question 6. Has the Department initiated or sustained consultation with this Member of Congress or his staff concerning the scope of its Section 119(h) investigation, the construction of the questions contained in Mr. Finkle's letter of February 11, or any other relevant details of its Section 119(h) investigation? Please be specific. Provide any written correspondence or records to verify such HUD initiated consultation.

Answer. HUD staff did not consult with you or your staff regarding the construction of the questions contained in Deputy Assistant Secretary Fink's letter to Amhoist dated February 11, 1985. However, HUD staff and your office have been in contact continually during the course of this matter.

As I understand it, HUD agreed to hold back delivery of the grant agreement to the grantee while you and your staff were seeking satisfactory assurances from Amhoist directly. This was raised in a telephone conversation between Mr. Judge, of your staff, and UDAG Review Officer Wulff on October 26, 1984, and was raised again in a call between the same two persons on November 19. HUD willingness to hold back delivery of the grant agreement pending receipt of a satisfactory response to your letter to Amhoist dated November 15, 1984, was confirmed by Mr. Wulff on November 21. After you received Mr. Nassau's response dated November 28, Mr. Wulff advised Mr. Judge that HUD would submit a grant agreement for execution to the City of Wilmington.

I understand that there was no further communication about the matter until Amhoist's announcement on January 11, 1985, that the St. Paul production lines would close at the end of March. On January 17, 1985, Deputy Assistant Secretary Finkle and UDAG Development Director Sowell met with you in your office. You delivered them your letter of that date addressed to me, and you expressed your concern that HUD take a serious look at the evolving situation, which Mr. Finkle assured you we would. Between then and early March, there were a considerable number of calls made from your office to either Mr. Finkle or Mr. Sowell regarding the status of HUD's ongoing review of the matter. Information furnished by your office, or with the letter dated February 8, 1985, from you and Congressman St Germain and Gonzalez, was reviewed closely and utilized extensively during our inquiry.

Question 7. Why didn't Secretary Pierce substantively respond to my August 24, 1984 letter alerting Secretary Pierce to a possible violation of Section 119(h) before this grant was awarded in October 1984?

Answer. As I'm sure you recognize, I refer a great deal of correspondence to different offices within the Department for direct reply, particularly when it involves discrete projects or similar matters as opposed to broader policy matters. In this case, I asked the Office of Community Planning and Development to respond to your letter of August 24. In your letter, you asked that our review of two pending applications for assistance to an Amhoist plant—from Wilmington, North Carolina, and a city in Alabama—"include an investigation as to whether these projects would violate the provisions of Section 119(h)." Deputy Assistant Secretary Dodge replied on September 25, 1984, assuring you that the application review "will include a careful investigation of the possible relocation of jobs from St. Paul."

Question 8. As of this date, March 18, 1985, I have still not received a substantive response to my August 24, 1984 letter. Did the Department make a Section 119(h) determination prior to awarding this UDAG in October 1984? Why didn't you communicate the result of this Section 119(h) determination to me?

Answer. The Department did make a Section 119(h) determination regarding the Wilmington application before granting preliminary approval in October 1984. I understand that the determination was included in the project file that was xeroxed by a member of your staff on October 26, 1984. Subsequently, as a result of conversations with your staff, we held up delivery of the grant agreement to the grantee pending Amhoist's response to your letter to Mr. Nassau dated November 15, 1984. Clearly, therefore, you were aware of the nature of our determination. Nevertheless, I agree that we should have informed you of the determination directly promptly after it was made, and I apologize for our not having done so.

Question 9. Did the Department receive any information from Amhoist prior to October 4th 1984, which indicated that Amhoist planned to discontinue its St. Paul crane production operation at any time in the future? What was the nature of that information? When did the Department receive this information? Please provide this information to the subcommittee.

Answer. Yes. We were advised that Amhoist intended to discontinue at some point the crane product lines being produced in St. Paul, and that it was likely that there would be a closing of the St. Paul production lines. The timing of this anticipated closing was not described at that time. It was also described as unconnected with the Wilmington facility, which was being sought to accommodate a decision to concentrate on new product lines involving principally larger-sized cranes. I understand that this indication of a later closing in St. Paul, which was taken into account in the Department's first Section 119(h) determination with respect to the Wilmington grant, was conveyed to HUD staff in a telephone conversation on September 12, 1984.

Question 10. Mr. Secretary, during the subcommittee hearing Mr. Jeff Finkle stated that HUD officials had discussed this UDAG less frequently with almost Amhoist officials than Mr. Finkle had discussed this UDAG with my staff. Please provide this subcommittee with a description of the meetings and conversations between HUD employees and officials of Amhoist. Please include the date, place, purpose and subjects of the meeting or conversation between Department employees and Amhoist officials.

Answer. I believe that the question to which Mr. Finkle responded referred to meetings that he had held with Amhoist officials, not meetings of other HUD staff. The meetings or discussions held between HUD staff and Amhoist officials are as follows:

September 11, 1984. Telephone call between HUD UDAG Review Officer Thiltgen and Amhoist General Counsel Johnson regarding number of jobs (25-30 supervisory employees) and equipment to be transferred to Wilmington.

September 12, 1984. Telephone call between Thiltgen and Johnson regarding rumors of layoffs to occur in St. Paul facility.

November 21, 1984. Telephone call between UDAG Review Officer Wulff and Amhoist Vice President Faulkner. Wulff advised Faulkner that HUD would hold up delivery of grant agreement to Wilmington pending Amhoist response to Congressman Vento's letter dated November 15, 1984.

February 15, 1985. Meeting at HUD Headquarters with UDAG Development Director Sowell, UDAG Review Officer Wulff, Amhoist General Counsel Johnson and Wilmington official Wood. Meeting was held at the request of Amhoist to discuss extent of detail HUD expected in Amhoist's response to Deputy Assistant Secretary Finkle's February 11, 1985 letter to Amhoist President Nassau.

March 8, 1985. Telephone conversation among Amhoist President Nassau and General Counsel Johnson, HUD General Counsel Knapp, and UDAG Development Director Sowell, regarding proposed production schedules at Wilmington.

March 19, 1985. Meeting at HUD among HUD General Counsel Knapp, UDAG Development Director Sowell, UDAG Program Director Newman, and Amhoist General Counsel Johnson. Topic of discussion was status of Amhoist's plans for future production of St. Paul products and production plans for Wilmington.

March 28, 1985. Meeting at HUD between Amhoist General Counsel Johnson, UDAG development Director Sowell regarding restrictive covenants to be added to UDAG Grant Agreement.

March 29, 1985. Meeting at HUD among General Counsel Knapp, Deputy Assistant Secretary Finkle, UDAG Program Director Newman, UDAG Development Director Sowell and Amhoist General Counsel Johnson regarding restrictive covenant.

April 12, 1985. Meeting at HUD among Secretary Pierce, General Counsel Knapp, Deputy Assistant Secretary Finkle, Amhoist President Nassau and General Counsel Johnson, and representatives of Wilmington and Senator Helms' office. General discussion of Amhoist's plans for St. Paul and Wilmington facilities, and covenants proposed by HUD.

I understand that there were additional telephone conversations during March and April, mostly including Mr. Finkle or Mr. Knapp, for which they have no listing.

Question 11. I am aware that members of my staff have met or conversed with Mr. Finkle four times: 1) On January 17, my staff participated in a meeting in my office, 2) On February 8, my staff hand delivered my letter to Mr. Finkle's office, a very short conversation ensued. 3) On March 6, my staff waited in Mr. Finkle's outer office to receive the HUD February 11, 1985 letter to Amhoist, Amhoist's response and memo from Amhoist concerning documents sent to the Department on Febru-

ary 8, 1985. Mr. Finkle did not speak to my staff nor would Mr. Finkle leave his office. 4) On March 12, my staff hand delivered my response to Mr. Finkle's March 11th letter. My staff accidentally ran into Mr. Finkle in the hall. There was no substantive discussion at this meeting. Has there been other contact between my staff and Mr. Finkle? Please be specific.

Answer. I understand that Mr. Judge, of year staff, has had a number of telephone conversations with Mr. Finkle, and there also have been a number of conversations regarding the status of the matter between your staff and our Office of Legislation and Congressional Relations.

Question 12. When will the Department make its final decision concerning the Wilmington, N.C./Amhoist UDAG?

Answer. HUD forwarded an amendment to the Grant Agreement to the City of Wilmington, North Carolina, on April 17, 1985. This constituted our decision with respect to compliance with Section 119(h).

Question 13. It is my understanding that the UDAG division has prepared a memo on the Wilmington, N.C./Amhoist UDAG for the General Counsel. Is this true?

What conclusions or recommendations are contained in that memo?

What material facts relevant to this specific UDAG were identified in this document? In other words, what factors of this specific UDAG were identified in this memo as crucial for the consideration of the General Counsel?

Please provide this memo and any memo prepared by the General Counsel's office concerning this UDAG.

Answer. I understand that the "memo" to which you refer was prepared on January 15, 1985, and was merely a summary chronology of events to that point. It did not attempt to identify or analyze critical factors, and in fact it was not forwarded to the General Counsel because it quickly became outdated.

Question 14. Mr. Secretary, at 5:00 pm Monday, March 11th, I received a letter from Mr. Jeff Finkle asking me for additional information concerning my opposition to this specific UDAG. On March 12th, I responded to that letter. This letter reviewed my correspondence with you during the last 7 months, restated my concerns about this grant and answered the specific questions raised by Mr. Finkle.

It is most disturbing to receive a letter requesting further information almost two weeks after the date on which HUD had pledged to issue its final decision concerning this grant. It indicates to me that either the Department intended to delay the final decision past the date of your testimony before this subcommittee or that on March 11th, the Department was still gathering information upon which to make that decision.

Why didn't the Department meet its February 28th decision deadline?

Was the Department still gathering information on this UDAG as of March 11?

Is the Department still gathering information on this UDAG as of this date?

Why wasn't the Department able to gather all the information it needed to make its final decision on this UDAG prior to the February 28th deadline?

Answer. At the meeting in your office with members of your staff on January 17, 1985, members of the HUD staff gave February 28 as an estimated date by which they expected to conclude their review of material already in hand and further information still to be requested. We did not make a decision by February 28 simply because we were not yet satisfied that our understanding of the situation was complete. We continued to probe and analyze the information we received and what it amounted to in terms of whether or not Amhoist's plans for the Wilmington facility represented, to any extent, a "relocation" of the St. Paul operations. As you know, I met personally with the Amhoist chief executive, and with Wilmington officials, as late as April 12, 1985, and only reached my final determination on the issue, and how to resolve it, after that meeting.

Question 15. (a) It is my understanding that the written application for a UDAG grant requires that the applicant to indicate whether the UDAG grant would result in relocation. Is that correct?

(b) If the applicant indicates that a specific UDAG will facilitate relocation, is the application automatically rejected?

(c) In order to remain within the requirements of Section 119(h), what other factors must the department consider when evaluating a UDAG application?

(d) Is it the policy of the Department to deny a UDAG application if the Department determines that a UDAG will facilitate the relocation of a plant or its facilities and the relocation will have a substantial adverse effect on the impacted community?

(e) How does the Department verify the applicant's estimate of the number of jobs to be relocated?

(f) What sources, in addition to the applicant and the developer, does the Department contact to verify the estimate of the number of jobs to be relocated? What unique insight or ability does such source have to verify such representations?

Answer. You are correct in your understanding regarding the application form. Question 2(g) of the form asks: "Will the proposed project result in the relocation of industrial or commercial facilities from one jurisdiction to another?" It calls for a "Yes" or "No" answer.

The application is not automatically rejected if the answer to question 2(g) is "Yes." Section 119(h) permits a project to be funded notwithstanding that it will facilitate a relocation if the Secretary "finds that the relocation does not significantly and adversely affect the unemployment or economic base of the area from which the industrial or commercial plant or facility is to be relocated."

If we determine both that a project will facilitate a relocation and that the relocation will have a significant and adverse effect on the area, then of course it is our policy to deny the application. That is what the law requires. As a matter of policy, as I explain further in response to your next question, I prefer to avoid funding any project that will involve any relocation at all, without reaching the question whether there is a "significant and adverse" effect on unemployment or economic base.

If there appears to be a potential relocation involved—whether from the response to question 2(g) or from other information either inside or outside the application—then the precise manner in which our further investigation will be conducted will depend on the factual situation. Our first, most direct source regarding number of jobs to be relocated is the employer itself. We also contact local governmental officials in the community where the current facilities are located. We do not have a hard, pre-set checklist of whom we will contact or sources of verification on which we will rely.

Question 16. Section 119(h) specifically provides that a UDAG may be granted despite the fact that the UDAG will facilitate the relocation of facilities only if "... the Secretary finds that the relocation does not significantly and adversely affect the unemployment or economic base of the area ..." Obviously, this is a most important determination.

(a) What factors does the Secretary consider when evaluating whether a grant will violate the "significant" and "adverse" finding pursuant to Section 119(h)?

(b) Does the Department have any procedures, either written or unwritten, which govern this determination?

(c) Does the Department have any written or unwritten guidelines which it uses to make this determination? For example, is there a level of job loss below which the Department routinely finds that there is no significant or adverse effect upon the area?

(d) How does the Secretary make the significant and adverse finding?

(e) How does the Department verify the Secretary's determination that the relocation associated with a specific UDAG either will or will not result in "significant and adverse" economic consequences for the area?

(f) What other sources, in addition to the applicant and the developer, is contacted by the Department in order to verify whether the impact of a specific UDAG is significant and adverse?

Answer. First, let me say that as a policy matter, I prefer to avoid having even to reach this question of determining whether or not an effect is "significant." Based on the legislative history of the development of Section 119(h), I believe that the principal purpose of the "unless" clause is to permit the funding of a relocation to a distressed area from a non-distressed area—for example, into a central city from a suburban area, which was an example specifically mentioned in the mark-up debate. When the relocation is from one distressed area to another, my policy is to refuse to grant preliminary approval unless the project can be structured in such a way as to preclude any possibility of relocation. For example, in the Amhoist situation itself, although we were already well past the preliminary approval stage, I insisted on an amendment to the grant agreement which effectively would preclude activities which would cause the project to become a "relocation" to any extent. I did that without considering separately whether the adverse effect on St. Paul of any such "relocation" that might result from that project—that is, the production in Wilmington of cranes previously produced in St. Paul as part of the normal operation of the St. Paul facility—would be significant.

What I have just described is my policy as it has evolved, particularly as a result of recent controversies involving Section 119(h). Notwithstanding this policy which guides my ultimate decision, the UDAG staff attempts to assemble data which will permit a finding to be made as to whether a relocation will "significantly and adversely affect the unemployment or economic base" of the metropolitan area from

which the facility is being relocated. The data is listed on page 11 of the UDAG Application Review Form. The data are:

Population; Total Employment; Unemployment Rate; Population growth lag/decline; Job lag/decline; Poverty level; Per Capita Income; Anticipated Jobs to be Lost; Anticipated Taxes to be Lost; and Other relevant factors or statistics.

In addition to the above specifically listed data, the staff reviewer generally notes on the form the impact and distress rank of the affected area.

An additional and significant factor which is noted on the review form and which is given serious consideration when a finding is being considered is the nature of any comments on the potential impact of the relocation by the local government.

The staff does not have written or unwritten guidelines for making the determination, such as quantitative threshold levels of significance. The differing sizes of cities and areas make use of uniform numerical thresholds impracticable. Further, as was indicated in the recently published policy statement regarding speculative projects, there are other factors which could impact upon the threshold level, such as whether there had been a pattern of job loss from the area that required consideration of cumulative impact rather than an isolated relocation.

Question 17. Questions 16 and 17 ask the Department to respond to general policy questions. These two questions are not case specific. Instead, they seek to have the Department describe its policy in making its Section 119(h) determination. Please provide this subcommittee with information that demonstrates how the policy stated in response to questions 16(a)(b)(c)(d)(e)(f) and 17(a)(b)(c)(d)(e)(f) was followed in the Wilmington, N.C./Amhoist UDAG. Please provide this information for both Section 119(h) determinations, i.e. the Section 119(h) determination made previous to the October 1984 grant announcement and the Department's more recent review/investigation of the specific UDAG.

Answer. As you asked, I will address separately the initial determination made at the time of preliminary approval and the subsequent actions which led to amendment of the grant agreement.

The Wilmington application answered "No" to question 2(g). However, there were other indications in the application that triggered a Section 119(h) inquiry. The application indicated that 25 new jobs would be transferred from other locations. Inquiry made of Amhoist disclosed that these 25 positions were to be supervisory employees transferred from St. Paul. The application also indicated that equipment would be transferred from other locations. A substantial portion of this equipment, principally generic metal fabricating equipment, was to be transferred from St. Paul.

This information required further inquiry as to (1) whether a "relocation" within the meaning of Section 119(h) was involved, and (2) if so, whether the relocation would have a "significant and adverse" effect on the unemployment or economic base of St. Paul. The factors specified by the Application Review Form were examined, and contacts were made with the Director of Economic and Community Development and the Mayor of St. Paul, as well as with the office of the Governor of Minnesota. The Developer submitted supplementary materials to its application, indicating that the objective of the Wilmington project was expansion of manufacturing capability to accommodate larger cranes than those produced in St. Paul. The St. Paul facility was described as unsuitable for this purpose because of its lack of direct seaport access and its inadequate material handling capability.

HUD also became aware during this inquiry that Amhoist likely would close its St. Paul production facility at some point. However, that intention was linked to both a decline in mid-size crane orders and a plan to discontinue the existing St. Paul product lines in any case. There was no suggestion made that any production of St. Paul products would be transferred to Wilmington as, in effect, a supplement to the new products planned to be produced there.

Based on the foregoing, a determination was made that the transfer of 25 supervisory employees would not have a significant adverse effect on St. Paul, and that no further relocation was involved. This determination was made in September 1984, before preliminary approval of the grant, and appeared further supported by Amhoist's response to you dated November 28, 1984.

On January 11, 1985, Amhoist announced termination of its crane assembly operations in St. Paul. This information, plus press reports suggesting that other Amhoist facilities might assume St. Paul's crane production and your letter to me dated January 17, 1985, led to Deputy Secretary Finkle's letter to Amhoist dated February 11, 1985. Separately, Amhoist production planning schedules for the Wilmington plant were furnished to HUD with the letter of February 8 from you and Congressmen St Germain and Gonzalez. Amhoist responded to the Finkle letter on February 22; the information contained in that letter was supplemented in a number of tele-

phone conversations and meetings with Amhoist officials, up to and including my meeting with Mr. Nassau and others on April 12.

The conclusion of this inquiry was that while the Wilmington facility was planned primarily for new products not previously produced at St. Paul or anywhere else, Amhoist also planned to shift to Wilmington any future orders for traditional St. Paul products that could not be completed at St. Paul prior to April 1, 1985. In mid-April, the orders of this type that were on hand were the two orders referred to in Mr. Nassau's letter dated February 22, 1985.

After examining these facts, I concluded that if Amhoist shifted to Wilmington the assembly of any traditional St. Paul products, then the Wilmington project would amount to a "relocation" of St. Paul facilities to that extent. I concluded that production in Wilmington of new generation models, or of locomotive cranes produced in St. Paul as a temporary expedient following closing of another plant, would not amount to a "relocation" within the meaning and intent of Section 119(h). Accordingly, I insisted, as a condition of release of the UDAG funds, on an amendment to the grant agreement prohibiting Amhoist from assembling in the Wilmington facility crane models previously assembled at Amhoist's St. Paul facility as part of the normal operations of the St. Paul facility. With this assurance, I believe that no "relocation" within the meaning of Section 119(h) is facilitated by the Wilmington UDAG grant.

I am furnishing, together with this response, copies of Mr. Finkle's letter dated February 8, Mr. Nassau's response dated February 22, and the recent amendment to the Wilmington grant agreement.

Question 18. In addition to the \$4 million UDAG the Amhoist Wilmington facility is also going to receive \$750,000 in Small City C.D.B.G. funds. The city of Wilmington has CDBG entitlement status and therefore is not eligible to participate in the Small Cities program. Amhoist's Wilmington facility is located within the city limits of Wilmington. Under what authority is New Hanover County allowed to use Small Cities C.D.B.G. funds to assist a for-profit operation within an entitlement community?

(a) Did the Department grant New Hanover County or the State of North Carolina a waiver prior to the announcement of the small cities CDBG grant?

(b) What authority exists for the Department to grant this waiver?

(c) Have there been previous examples where Small Cities C.D.B.G. funds have been used within an entitlement community to assist a for-profit operation? Please provide the specifics of these instances.

(d) Does the Department have a written policy on this matter?

Answer. No waiver was necessary. The grant was made to the State of North Carolina, which distributed grant funds to Hanover County as an eligible recipient under the State's Program. The project is located in an area recently annexed by the City of Wilmington, but the County had determined that benefits would accrue to the County. The permissibility of block grant expenditures in an area outside the jurisdiction of the grantee based on such a determination has long been recognized in the Community Development Block Grant program. The use of funds in an entitlement area is specifically recognized in the regulations governing the HUD-administered Small Cities Program at 24 CFR 570.420(k)(3), and that precedent has been recognized in the State's Program. A previous example occurring in the State's Program involved the expenditure of funds by Jackson County, Missouri, for an economic development project located in Fenton, Missouri, which was a participant in the St. Louis County Urban Country grant.

Question 19. On February 8, Chairman St Germain, Chairman Gonzalez and I sent you a letter. Accompanying that letter were internal Amhoist company documents. These production planning documents show that Amhoist intends to produce 27 cranes in Wilmington which are now produced at the St. Paul plant.

(a) Did the Department ask Amhoist to comment on these documents? If so, when? Please provide this subcommittee with the correspondence between HUD and Amhoist concerning these documents.

(b) Did the Department specifically ask Amhoist to comment on the two documents entitled "700 Series Schedule 'Wilmington'" "800 Series Scheduled 'Wilmington'" and "900 Series Schedule 'Wilmington'"? Please provide this subcommittee with the correspondence concerning these three documents.

Answer. The production planning documents were discussed with Amhoist officials on several occasions. The import of the production plans are as stated in response to Question 17. To the extent that the models listed on the schedules were models previously assembled in St. Paul as part of the normal operations of the St. Paul facility, their assembly in Wilmington is prohibited by the recent amendment

to the grant agreement. There is no correspondence between HUD and Amhoist relating to these schedules.

Question 20. Mr. Secretary, is the anti-pirating provision strong enough or do you need a tougher law to prohibit pirating of jobs from one area to another?

Answer. The law is strong enough. It requires administrative interpretation that necessarily has to develop on a case-by-case basis, but I believe that is necessary in order to avoid overly rigid applications that could frustrate, rather than further, Congressional intent. As you know, there recently has been considerable controversy over the application of the statute to speculative projects. These raise a question of interpretation of the "intended to facilitate a relocation" language, and they also raise a question about the geographic scope of the term "area"; for example, is the statute intended to restrain (or, more precisely, to deny assistance to) a relocation from one jurisdiction to another that remains within the same labor area? (We exempt relocations within a single metropolitan statistical area, which may be smaller than a labor area.) However, the Amhoist matter did not involve these more difficult areas of interpretation. The law seems adequate to deal with situations such as the Wilmington application for Amhoist.

Question 21. The Section 119(h) law is absolutely clear. The problem in my judgment is that procedures or policies are not in place to ensure that it is followed. How would you modify the operations of the Department to satisfy OMB's criticisms and my deep concerns about the current and future Wilmington UDAG relocation controversy and OMB's more general concerns about relocation?

Answer. I don't believe that fundamental changes in procedures are required. What we are dealing with is an application review process, which necessarily has to proceed on a more expeditious basis than the kind of formal investigatory process that you would associate with a compliance matter. But I think that the Amhoist matter is one where we perhaps should have been more aggressively and more imaginatively alert to the relocation possibilities that were inherent in the matter from a practical point of view. I would have liked us to have been as aware of these possibilities in September as we became in April, so that the conditions imposed through the amendment to the grant agreement would have been imposed at the time of preliminary grant approval.

Question 22. Mr. Secretary, would you provide this subcommittee with a written explanation of the procedure used to make Section 119(h) determinations?

Answer. Please refer to my responses to questions 15, 16, and 17.

Question 23. Would you provide this subcommittee with a list of all the UDAG projects for which a Section 119(h) determination was made?

Answer. We have no list of all projects for which a determination under Section 119(h) was required. The listing set out below is based on the recollections of UDAG staff members and a check of the particular project files. Accordingly, the list is probably not complete but I believe it is fairly representative:

<i>Applicant</i>	<i>City from which facility relocating</i>
Sullivan, Missouri.....	Rock Hill, Missouri
Newark, New Jersey.....	New York, New York
Lawrence, Massachusetts.....	Chelmsford, Massachusetts
Somerville, Massachusetts.....	Cambridge, Massachusetts
Mullens, South Carolina.....	Morgantown, North Carolina
Baltimore, Maryland.....	Landover, Maryland
Elizabeth, New Jersey.....	New York, New York
Des Moines, Iowa.....	Racine, Wisconsin
Watsonstown, Pennsylvania.....	Chicago, Illinois

Question 24. Did HUD employees meet with Amhoist officials to discuss Amhoist's response to the Department's February 11, 1985 letter?

How many meetings took place?

What was the purpose and subject of these meetings?

During any of these meetings did HUD employees discuss with Amhoist officials the questions HUD was going to send to Amhoist? If so, did the Department modify the questions sent to Amhoist on February 11, 1985 in response to concerns raised by Amhoist officials?

During any of these meetings was there discussion about the criteria used by the Department to find that this specific grant would violate Section 119(h)?

During any of these meetings did HUD employees discuss the type of Amhoist response which would satisfy the Department's Section 119(h) concerns or the type of response that would cause the Department to find that Section 119(h) had been violated?

What changes were made to the company's first draft? Would you provide the Committee with a copy of any different drafts and memos written about this meeting?

Answer. HUD employees met once, on February 15, 1985, with Amhoist General Counsel Johnson to discuss Amhoist's response to the Department's February 11, 1985 letter. Mr. Johnson requested the meeting in order to clarify the amount and specificity of detail HUD was requesting in the response. There was no discussion in advance of the February 11 letter and no modification of the questions to be asked. I understand that during the February 15 meeting there was no discussion of the impact that any of the questions asked, or the responses that might be made, would have on the determination of the Section 119(h) issue. HUD has no knowledge of any Amhoist draft response other than the final response dated February 22.

Question 25. (a) Has HUD been informed by Amhoist officials that the company intends to permanently close the St. Paul Crane Manufacturing operations?

(b) When did the Department receive this notification? Please provide any correspondence or other HUD records which substantiates this answer.

(c) Did the Department receive information, from sources other than Amhoist, that the company intends to permanently close the St. Paul Crane Manufacturing operation?

(d) From what source and on what date did the Department receive this information?

Answer. As indicated in other responses, HUD was aware in September 1984 of the likelihood of a St. Paul production termination at some date. The only written confirmation of the closing is contained in Mr. Nassau's letter dated February 22, 1985. The Department was also aware of previous press reports of a possible plant closing.

Question 26. Mr. Finkle's letter to Amhoist dated February 11, 1985 asks the company to respond to eight questions. Questions number four and seven ask the company to describe the impact of the Wilmington plant in terms of the location of future production of cranes *traditionally manufactured or traditionally built in St. Paul*.

(a) Why is the term "traditionally" used?

(b) In making this Section 119(h) determination what does the Department see as the significance of "traditional" versus "non traditional" cranes?

(c) What statutory or regulatory authority supports this distinction between "traditional" and "non traditional" cranes?

Answer. The term "traditional" was used as a shorthand descriptive term that appeared relevant and convenient in the light of certain unique circumstances regarding Amhoist and its St. Paul facility. It means crane models previously assembled at the St. Paul facility as part of the normal operations of the St. Paul facility. It is intended to exclude, for example, locomotive cranes that previously were manufactured in Bay City and were produced to some extent in St. Paul following closing of the Bay City plant in 1982 as a temporary expedient. The St. Paul facility was not designed for the handling of cranes or crane components of this size, as was noted in Mr. Nassau's letter to you dated November 28, 1984.

While Section 119(h) refers to the relocation of "industrial or commercial plants or facilities," I believe that the focus of the provision is the operations conducted in a plant or facility, not the physical structure or the physical equipment. As I read your letter to Mr. Nassau dated November 15, 1984, I believe you take a similar view. If the operations conducted in Wilmington are not the operations conducted in St. Paul, then I believe that no "relocation" has occurred. I also believe, however, that this can be applied reasonably only to operations for which the St. Paul facility was designed and which were the normal business of the plant, and that it would be capricious to extend it to operations housed temporarily in a facility that is inherently unsuitable for those operations.

Mr. Robert N. Kessen
 President, Chief Executive Officer
 American Helist and Derrick Company
 1800 Anheist Tower
 St. Paul, Minnesota 55162

FEB 11 1985

Dear Mr. Kessen:

I am writing with regard to the Urban Development Action Grant (UDAG) awarded October 4, 1984 to the City of Wilmington, North Carolina to assist Anheist in purchasing and renovating an industrial facility to produce cranes. As you are aware, during the review of Wilmington's UDAG application, HUD was very concerned about the possible transfer of jobs and/or production from Anheist's St. Paul manufacturing plant to the proposed plant in Wilmington. Title 42 of USC 5318(b) of the Housing and Community Development Act of 1974, as amended by Public Law 95-128, prohibits the use of UDAG funds to relocate jobs from one jurisdiction to another.

UDAG funding was awarded to Wilmington for the Anheist project on the understanding that the only relocation from Anheist's St. Paul plant to Wilmington would be "twenty-five to thirty people necessary for start-up" (your letter of September 12, 1984 to William Farris) and approximately \$5,936,000 of equipment (Charles Trusinski's September 11, 1984 letter to Sandy Wood). You further confirmed Anheist's intent to not violate the anti-relocation statute in your November 28, 1984 letter to Congressman Verto.

Subsequent events have given us cause to ask you to reaffirm your compliance with the statute. There have been recent articles in the St. Paul Pioneer Press Dispatch (January 12 and 13) which report Anheist's proposed layoff of 300 employees in St. Paul, and these articles include quotes attributed to Anheist executives that suggest that other Anheist plants will assume St. Paul's crane production.

We need your response to questions raised in the St. Paul press. Specifically, UCB needs answers to the following questions.

- (1) Do you plan to layoff workers in Anhoist's crane manufacturing plant in St. Paul? If "yes", approximately how many?
- (2) Is it Anhoist's plan that the new Wilmington crane manufacturing plant will assume crane manufacturing responsibilities from Anhoist's St. Paul plant?
- (3) Will the manufacturing equipment that Anhoist intends to move from the St. Paul plant to the new Wilmington plant be used to manufacture cranes or crane parts now manufactured in St. Paul?
- (4) Will the movement of manufacturing equipment from St. Paul to Wilmington prevent the St. Paul plant from continuing as a significant production facility for cranes traditionally manufactured there?
- (5) Has there or will there be additional production equipment moved from the St. Paul facility to Wilmington that was not contemplated and disclosed as of September 11, 1984?
- (6) Will crane parts manufactured in Anhoist's St. Paul plant be assembled in the Anhoist Wilmington plant?
- (7) Has there been or will there be any transfers of crane orders traditionally built (in whole or in part) in the St. Paul facility to the Wilmington plant?
- (8) Is there any cause and effect relationship between the construction of the proposed Anhoist crane manufacturing plant in Wilmington and the proposed layoff of 300 workers in Anhoist's St. Paul crane manufacturing plant.

We need your written response within two weeks. Failure to respond may jeopardize this grant. Your cooperation is appreciated.

Sincerely,

Jeffrey A. Finkle
Acting Deputy Assistant Secretary
for Program Management



AMERICAN HOIST & SERRICK COMPANY 1900 AMHOIST TOWER, ST. PAUL, MN 55102

ROBERT H. NASSAU
PRESIDENT
CHIEF EXECUTIVE OFFICER

February 22, 1985

Mr. Jeffrey A. Finkle
Acting Deputy Asst. Sec.
for Program Management
U. S. Department of Housing
and Urban Development
451 Seventh Street, S.W.
Washington, D.C. 20410

Dear Mr. Finkle:

Thank you for your letter of February 11, 1985, inviting us to clarify matters regarding our crane operations and the UDAG awarded to Wilmington, North Carolina, on October 4, 1984.

In the course of your initial consideration of Wilmington's application, HUD officials asked us numerous questions regarding the impact of a new plant on our St. Paul employees. We are advised that your inquiry included telephone and written contact with appropriate St. Paul city officials. Following your investigation you approved the grant to Wilmington. Subsequently Congressman Bruce Vento requested that you delay mailing the executed grant to Wilmington pending our response to the Congressman's letter of November 15, 1984. We answered the Congressman's letter to his and your satisfaction and the executed grant was sent to Wilmington.

The facts stated in our application and letter have not changed. Your initial inquiry and the secondary inquiry prompted by Congressman Vento's letter both elicited much information about the effect of Wilmington on St. Paul employees. There are absolutely no facts not previously disclosed to you which warrant reversing your decisions. Accordingly, we are pleased to be able to again summarize the facts for the record.

On July 9, 1984, the Amhoist Board of Directors comprehensively reviewed the Corporation's strategic plan. The Company's pre-tax loss in the previous eight fiscal quarters was approximately \$105,000,000 with the vast majority of the loss occurring in the Crane Division.

The Board considered the following facts regarding Amhoist's crane manufacturing:

- (1) The St. Paul plant was designed for and traditionally manufactured the mid-size range of Amhoist's cranes. Attached on Exhibit A is a breakdown of Amhoist's American Crane Division products showing the year each product was introduced, where manufactured, and when discontinued.
- (2) Because of declining market demand, Amhoist's Bay City plant (large cranes) and Fort Wayne plant (small cranes) were closed. Production was temporarily moved to St. Paul or subcontracted in the U.S. or overseas and a new plant study was initiated.
- (3) Because of its age and "add-on" characteristics, the St. Paul plant is very inefficiently laid out: St. Paul was chosen for the temporary consolidation notwithstanding these limitations because it was the crane division headquarters and although limited in flexibility is larger than either of the other two facilities.
- (4) Larger components and larger cranes were the only growing aspects of the crane business since the plant consolidations unfortunately these largest components and cranes could not be efficiently handled or lifted in the plant.
- (5) Demand for traditional St. Paul manufactured products was showing a continuing decline: Exhibit B shows orders for the 700, 800, and 900 lines since 1953. The drop from 1980 to 1984 has been particularly acute. At present our total order backlog for these three series of cranes is 6 total units. This is the total order backlog for traditional St. Paul cranes.
- (6) Increasing foreign orders and larger sized components accentuated the importance of a deep water port not available at St. Paul.
- (7) The Minnesota State Highway Department had notified the Company on March 8 1984, that effective January 1, 1985, they were letting bids for the rehabilitation of the Robert Street Bridge. The bridge bisects Amhoist's property and is the roof of Amhoist's central stores. It also houses all utilities servicing the plant. Amhoist was notified it should be prepared to vacate the central part of its factory for approximately 18 months starting in April or May, 1985. On August 16, 1984, this bridge project was deferred until at least January 1988 because of the need to replace the nearby High Bridge. The timing cost internally estimated at \$4,221,000 on August 21 1984), responsibility for paying, and planning how to continue operations in view of the disruption to an already inefficient plant all remained unresolved.

Following extensive discussion of alternate crane strategies including liquidation, [foreign] licensing of manufacturing, the Board concluded that the St. Paul Facility was clearly inadequate and a consolidation of crane manufacturing in a large, efficient U. S. facility should be pursued. Management was instructed to explore manufacturing facilities which could handle large cranes.

Anhoist subsequently entered into tentative agreements for the acquisition of the Wilmington, North Carolina, site and submitted an application for UDAG funding to assist in the acquisition. The key point which I wish to make is that as of the July Board Meeting and long before we had decided to go to Wilmington, Anhoist had made a decision to discontinue crane manufacturing operations in St. Paul for reasons totally unrelated to a UDAG grant.

Notwithstanding the bridge problem discussed above, Anhoist considered building a new efficient crane plant on the 63 South Robert Street site. Preliminary calculations of the cost of demolition of virtually all manufacturing buildings, and rebuilding a modern plant with overhead cranes comparable to those existing in Wilmington, were estimated at \$29 million (the cost of the land, buildings and necessary renovation of Wilmington was \$11 million). This \$29 million price, when considered along with the uncertainty of the timing of the inevitable bridge interruption and the fact that even if built in St. Paul we would not have a deep water port, resulted in the quick realization of the near impossibility of economically justifying rebuilding a plant in St. Paul.

At all times we have believed and have represented that we comply with the provisions of Title 42 of USC 5318 (b) of the Housing and Community Development Act of 1974 as amended by public law 95-128. We have felt so for three distinct reasons:

- (1) As of July, 1984, we had reached a decision to discontinue crane manufacturing operations in St. Paul. The subsequent grant on September 30, 1984 of a UDAG to Wilmington for our project was admittedly a factor as to where Anhoist cranes would be manufactured but was not the reason we would no longer manufacture cranes here.
- (2) As stated in my letter to Congressman Vento, Anhoist was (and still is) committed to retaining in St. Paul the crane division's staff engineering, parts and service, marketing, sales, Marine/Energy, management information services, the parts distribution center, the test center, and the foundry. These employees constitute 75 percent of the 763 crane related jobs traditionally and presently performed in St. Paul. Accordingly we are not relocating our crane operations within the statutory definition.

- (3) Even if our actions are regarded as a "relocation" within the statutory definition, the "relocation" does not significantly and adversely affect the unemployment or economic base of St. Paul. You explored this issue in depth earlier with us and with Mayor Latimer of St. Paul. Mayor Latimer's letter to you of September 13, 1984, discussed the expected loss of 500 jobs in St. Paul. Although the Mayor and others would obviously prefer to have the jobs here their loss will not significantly and adversely affect St. Paul or the Twin Cities which are economically vibrant. In our letter responding to Congressman Vento's inquiry we advised you that Mayor Latimer's estimate of 500 lost jobs was high by 300 and that we expected no more than approximately 200 lost jobs; but clearly prior to approving the grant to Wilmington, you were aware of the expected loss of a number of jobs in St. Paul and the impact of such a loss was not "significant and adverse."

Each of these three reasons is a valid independent basis for our belief that we have complied with the statute. Allegations of violations of the anti-pirating provisions of the statute totally miss the point. The jobs were lost to St. Paul. In the absence of the UDAG, they would also be lost to America.

To respond specifically to your questions:

- (1) We do plan to lay off workers in Amhoist's St. Paul crane manufacturing facility. At the present time approximately 350 people have been working on part of a non-traditional St. Paul project transferred to St. Paul because of the closure of another plant. A part of this project was transferred to our Cordele, Georgia plant and final assembly was originally scheduled for a rented facility as St. Paul could not accommodate the entire project. The St. Paul aspect of this one-time order will be concluded by March 31, 1985. After the layoff of these 350 people we will have approximately 763 persons remaining in St. Paul "traditional crane jobs." As discussed above 75 percent of these persons will remain employed by us in St. Paul.
- (2) As shown on Exhibit B demand for traditional St. Paul crane products has declined steadily since 1972 and precipitously since 1980. At this time out of our total crane backlog of 71 units (\$84 million) only 6 units (under \$3 million) are traditional St. Paul crane products. All but two of these six units are scheduled to be completed in St. Paul.

Because of the scheduling requirements to complete the 25 locomotive cranes constituting the Dong Ah order in St. Paul by the March 31st planned shutdown date, the remaining two cranes cannot be manufactured in St. Paul. Accordingly, they will be manufactured elsewhere.

The maintenance of a plant the size of St. Paul to handle the possible trickle of orders which might subsequently arise for these products does not justify keeping the facility open. These models which are 15 to 25 years old are being replaced by new designs not suitable for manufacturing in St. Paul. If after March 31, 1985, we should receive orders for these model cranes we would manufacture them at a location other than St. Paul. Under no circumstances will we fabricate and assemble cranes in St. Paul after approximately March 31, 1985. If for any reason it should become impossible for us to manufacture such cranes in Wilmington, we will either subcontract or joint venture the work (probably overseas) or manufacture cranes in one of our other domestic or foreign facilities.

- [3] As stated in our application for the UDAG, we anticipate transferring approximately \$6 million (book value) of equipment from St. Paul, Bay City, Duluth, and Fort Wayne. For all practical purposes the only traditional products offered are the 700 and 900 both of which are being substantially replaced by the models 7150, 7120, 8150, and 8120 which are new concept cranes for which St. Paul is not a suitable manufacturing facility.
- [4] As stated above, we have no intention of continuing crane machining, fabrication and assembly in St. Paul under any set of circumstances after approximately March 31, 1985. We do plan to continue foundry operations, our \$40 million parts distribution center and our crane engineering testing operation in St. Paul.
- [5] No production equipment will be moved from St. Paul to Wilmington other than that disclosed as of September 11, 1984 with a possible exception of minor substitutions from the total pool of available idle equipment based on need and condition.
- [7] After closure of St. Paul any orders for cranes traditionally built in St. Paul will, of necessity, be built elsewhere. However, all current orders for traditional St. Paul products will be built in St. Paul except for two cranes which cannot be completed by March 31, 1985, because of the demands placed upon the facility to get out the non-traditional 25 crane Dong Ah order.
- [8] Our decision to discontinue manufacturing operations in St. Paul preceded our decision as to where and under what circumstances we would manufacture joint venture subcontract or purchase crane parts. This is set out clearly above. Three hundred and fifty employees who are working on the soon to be completed special order will be (and would have been) laid off totally without regard to the Wilmington plant.

As you know, following execution of the UDAG grant to Wilmington, and in reliance on the grant, we issued \$10 million of Industrial Revenue Bonds, purchased the Wilmington property for \$5.625 million and entered into a contract for in excess of \$7 million to improve and renovate the facility to enable us to manufacture cranes here in America. Extensive delay in enabling us to utilize the UDAG funds may cause us irreparable damage. Amhoist's financial dependence upon the UDAG loan proceeds being made available promptly is critical. The adverse consequences of a cancellation or delay in the funding of this loan would cause enormous difficulty to Amhoist.

In view of the above facts, we remain most willing to respond immediately to any additional inquiries you may have. Please advise us if additional information is necessary.

Very truly yours,

A handwritten signature in dark ink, appearing to read "R.H. Nassau". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

/mjd

EXHIBIT A
AMERICAN CRANE DIVISION

<u>MODEL</u>	<u>INTRODUCED</u>	<u>DISCONTINUED</u>	<u>MANUFACTURED</u>
4110	1965	1966	Ft. Wayne
4210	1965	1970	Ft. Wayne
4250	1965	1975	Ft. Wayne
4260	1972	1975	Ft. Wayne
4120	1979	1984	Ft. Wayne
4220	1984	Current	Ft. Wayne/Korea
4260	1984	Current	Korea
4450	1965	1970	Ft. Wayne*
4460	1970	1975	Ft. Wayne*
4660	1969	1975	Ft. Wayne
4720	1968	1980	Ft. Wayne
4750	1968	1980	Ft. Wayne
4730	1980	Current	Ft. Wayne/Korea
575C	1958	1974	St. Paul
595C	1958	1974	St. Paul
599C	1958	1983	St. Paul to 11/75
			Ft. Wayne 11/75-'83
5299	1964	1981	St. Paul to 11/75
			Ft. Wayne 11/75-'81
5299A	1981	Current	Ft. Wayne/Brazil
5300	1980	Current	Ft. Wayne/Brazil
5220	1983	Current	Ft. Wayne/Brazil
599T	1958	1964	St. Paul*
5450	1964	1968	St. Paul*
5460	1968	1976	St. Paul to 9/70*
			Ft. Wayne 9/70-'76*
5470	1976	1984	Ft. Wayne*
5510	1966	1968	St. Paul*
5520	1969	1970	St. Paul*
5530	1970	Current	Ft. Wayne*/Brazil/ Wilmington
599WM	1959	1966	St. Paul
5650	1968	Current	St. Paul to 9/70
			Ft. Wayne to '84**/ Brazil
5670	1968	Current	St. Paul to 9/70
			Ft. Wayne to '84**/ Brazil
599P	1959	1968	St. Paul
5720	1968	Current	St. Paul to 9/70
			Ft. Wayne to '84/ Brazil
5750	1968	Current	St. Paul to 9/70
			Ft. Wayne to '84/ Brazil

*Lower manufactured in Amhoist's Canadian plant

**Lower purchased from third party

EXHIBIT A

<u>MODEL</u>	<u>INTRODUCED</u>	<u>DISCONTINUED</u>	<u>MANUFACTURED</u>
750C	1957	1978	St. Paul
795C	1957	1974	St. Paul
797C	1961	1984	St. Paul
7220	1972	1986	St. Paul/Brazil
799C	1957	1961	St. Paul
7250	1962	1984	St. Paul
7260	1968	1986	St. Paul/Brazil
799T	1957	1961	St. Paul
7450	1962	1972	St. Paul*
7460	1973	1984	St. Paul*
7510	1962	1972	St. Paul*
7530	1973	1985	St. Paul*
7650	1972	1985	St. Paul**
7670	1972	1985	St. Paul**
7720	1968	1986	St. Paul
7750	1968	1986	St. Paul
7255	1981	1984	St. Paul
7150	1985	Current	Wilmington
7120 (120T)	1985	Current	Wilmington
8450	1974	1978	St. Paul*
8460	1978	1984	St. Paul*
8470	1984	1987	St. Paul*
8150	1987	Current	Wilmington
8120 (180T)	1987	Current	Wilmington
975C	1961	1972	St. Paul
995C	1961	1972	St. Paul
997C	1961	1972	St. Paul
998C	1961	1984	St. Paul
999C	1961	1984	St. Paul
9260	1974	1984	St. Paul
9270	1975	1987	St. Paul
9299	1974	1987	St. Paul
9310	1978	1987	St. Paul
9320	1984	Current	St. Paul
9510	1968	1969	St. Paul*
9520	1969	1976	St. Paul*
9530	1975	1987	St. Paul*
9720	1968	1987	St. Paul
9750	1968	1987	St. Paul
9220	1984	Current	St. Paul
10320	1984	Current	Wilmington
11210	1971	1973	Bay City
11250	1971	1975	Bay City
11310	1976	1979	Bay City
11320	1979	Current	Bay City/Wilmington
11760	1976	Current	Bay City/Wilmington

EXHIBIT A

<u>MODEL</u>	<u>INTRODUCED</u>	<u>DISCONTINUED</u>	<u>MANUFACTURED</u>
12210	1973	1980	Bay City
12220	1980	Current	Bay City
12720	1980	Current	Bay City
5030 Loco	} Pre 1970	"	Bay City/St. Paul-Cordele
840 Loco		"	"
850 Loco		"	"
855 Loco		"	"
9070 Loco		"	"
R213	1977	1980	Mpls
S-10	} All Stiff Legged Derricks Pre 1970	Current	Bay City/Wilmington
S-20		"	"
S-30		"	"
S-40		"	"
S-50		"	"
S-60		"	"
S-70	} 1981	"	"
S-80		"	"
152	} All Land Revolvers Pre 1970	"	"
203		"	"
254		"	"
305		"	"
356		"	"
407		"	"
509		"	"
220		"	"
325		"	"
430		"	"
535		"	"
640		"	"
850		"	"
LSB-8	1982	"	"
LSB-10	1982	"	"
LSB-12	1982	"	"
M-20	} Marine Revolver Pre 1970	"	"
M-25		"	"
M-30		"	"
M-35		"	"
M-40		"	"
M-50	} 1982	"	"
M-56		"	"
2000		"	"
2500		"	"
3000		"	"
5000		"	"
6000	1984	"	"

EXHIBIT A

<u>MODEL</u>	<u>INTRODUCED</u>	<u>DISCONTINUED</u>	<u>MANUFACTURED</u>
<u>Winches</u>			
150	1977	"	Ft. Wayne/Bay City/
270	1977	"	" Wilmington
385	1977	"	"
450	1977	"	"
625	1984	"	"
750	1977	"	"
950	1984	"	"
JU36	1982	"	"
210		"	Bay City/Wilmington
280		"	"
380	Pre 1970	"	"
550		"	"
1000		"	"
1200		"	"
3000		"	"
6000		"	"

EXHIBIT B

ORDERS FOR TRADITIONAL ST. PAUL PRODUCTS

700'S, 800'S, AND 900'S

MODEL	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
700	6	27	41	57	69	47	45	39	30	51	67	99	77	78	85	113	125	92
800	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
900	-	-	-	-	-	-	1	6	18	27	33	38	39	50	47	64	73	74
TOTAL	6	27	41	57	69	47	46	45	48	78	100	137	136	138	132	177	198	166

MODEL	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	TOTAL 1953 - 1984
700	97	129	171	118	74	89	53	123	129	89	60	30	28	9	= 2,347
800	-	2	4	20	12	23	11	14	10	11	10	4	0	1	= 122
900	74	75	106	102	74	98	86	88	86	105	85	35	25	17	= 1,526
TOTAL	171	206	280	240	160	210	150	225	225	205	155	69	53	27	

GRAND TOTAL = 3,995

Recipient: City of Wilmington, North Carolina Grant No.: B-85-AA-37-0030

This First Amendment is made and entered into, by and between THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT, acting by and through the Assistant Secretary for Community Planning and Development, as representative of the United States of America (the "Secretary"), and the CITY OF WILMINGTON, NORTH CAROLINA ("Recipient").

W I T N E S S E T H

WHEREAS, the Secretary and Recipient have entered into that certain UDAG Grant Agreement executed by the Secretary on November 14, 1984 and by Recipient on December 7, 1984 (the "Grant Agreement");

WHEREAS, the Secretary and Recipient now desire to amend the Grant Agreement to further facilitate the consummation of the transactions contemplated therein;

NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreement set forth herein, the Secretary and Recipient (under Section 119 of the Housing and Community Development Act of 1974, as amended) mutually agree that the Grant Agreement be and hereby is amended as follows:

Paragraph (a)(3) of Section III of Exhibit E to the Grant Agreement is hereby amended by the addition thereto of a new subparagraph (x), reading in its entirety as follows:

(x)(1) Restrictive Covenant. Developer shall covenant that, during the period commencing on the date of execution of the amendment to the Grant Agreement incorporating this provision and ending upon expiration of the term of the UDAG Loan, Developer will not assemble or prepare for shipment at the Project Site any cranes of the following models:

797C	7720	9270
7220	7750	9299
7250	7255	9310
7260	8480	
7480	8470	9530

AMENDMENT

Recipient: City of Wilmington, North Carolina Grant No.: B-85-AA-37-0030

Continuation Sheet — 2809627

1	7530	998C	8720
2	7650	999C	9750
3	7670	9260	9220

(2) The intent of this provision is to restrain Developer from assembling at the Project Site crane models previously assembled at Developer's facilities in St. Paul, Minnesota, as part of the normal operations of the St. Paul facility. This restriction is not intended to restrict assembly at the Project Site of new generation crane models of similar size and capacity, such as models 7150, 7120, 8150, 8120 and 9320; larger models such as model 10320 or 11000 or 12000 series models; locomotive cranes, including models 5030, 840, 850, 855, and 9070; or models earlier discontinued at St. Paul and assembled elsewhere prior to 1984, including models 5650, 5670, 5720, and 5750. If any controversy shall arise with regard to whether a crane assembled or proposed to be assembled at the Project Site is of a type covered by the prohibitions stated in paragraph (1) above, the burden of proof that such crane is covered by the prohibition shall be on Recipient.

(3) Recipient shall appoint the Secretary of HUD (and his or her successors in office) as its attorney-in-fact with full power, on behalf of Recipient, to declare a breach of the covenant described herein and an event of default under the loan agreement as a result thereof, or to act on behalf of Recipient (at HUD's election) following any declaration by Recipient of such a breach and event of default.

AMENDMENT

Recipient: City of Wilmington, North Carolina Grant No.: B-85-AA-37-0030

Continuation Sheet—AMENDMENT

IN WITNESS WHEREOF, the parties hereto have executed this Amendment to UDAG Grant Agreement B-85-AA-37-0030 on the dates hereinafter written, it being understood and agreed that the amount of the grant is not affected by this Amendment, and that the Grant Agreement as amended hereby continues in full force and effect.

SIGNATURE

The foregoing amendments to the Grant Agreement numbered B-85-AA-37-0030 are hereby authorized and approved.

Date: 4/17/85 SECRETARY OF HOUSING AND URBAN DEVELOPMENT

BY: Jeffrey A. Finkle
Acting Deputy Assistant Secretary
for Program Management
Community Planning and Development

ACCEPTANCE

The foregoing amendments to the Grant Agreement numbered B-85-AA-37-0030 and authorized and approved by the Department of Housing and Urban Development, as shown above, are hereby accepted by the Recipient.

Date: 4/19/85 CITY OF WILMINGTON, NORTH CAROLINA

BY: William Schwartz
Mayor

APPROVED AS TO FORM
[Signature]
CITY ATTORNEY

AMENDMENT

QUESTIONS FROM CONGRESSMAN MANTON TO SECRETARY PIERCE

Question 1. The Administration last year supported the UDAG program and this year is proposing its termination based on the supposition that the program is ineffective and operates in a fashion contrary to the goals of the program. What is the reason that UDAG is proposed for termination, is it the budget issue or is it the program issue?

Answer. The program is proposed for termination because of the need to reduce the deficit in the national budget.

Question 2. It is reported that unemployment in UDAG-eligible cities average 8.2 percent compared with 5.5 percent in other communities. Also employment growth in eligible cities average only one-third the national rate and eligible cities averaged twice the tax burden of other communities. Doesn't this indicate that the program is successful in reaching population groups and communities that are in need of help?

Answer. The program has been targeted to the most distressed cities, based on such factors as unemployment, age of housing, poverty and population loss.

ADDITIONAL MATERIAL SUBMITTED FOR INCLUSION IN THE RECORDS



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Rudolph G. Pomeroy
Director

MEMORANDUM

April 5, 1985

At the request of Chairman Gonzalez, the Congressional Budget Office prepared the following analysis of Secretary Pierce's testimony.

This memorandum is in response to your request for an analysis of the attached chart, which is part of testimony delivered by Secretary Samuel Pierce of the Department of Housing and Urban Development (HUD) before the Subcommittee on Housing and Community Development on March 13, 1985. The chart presents trends in the "housing debt" and in the number of families assisted between 1982 and 1986.

Housing Debt

It is our understanding that the term "housing debt" is used to denote the total amount of outstanding unliquidated (or unspent) balances, appropriated in previous years to fund multi-year contracts for assisted housing under the various HUD programs, including Section 8, public housing, and other programs. Under current budgetary procedures, each year, some amount of additional budget authority—that is, the authority to commit the government to future expenditures—is appropriated to pay the long-term costs for some number of additional housing assistance commitments made in that year. This additional budget authority adds to the total of outstanding balances. At the same time, part of these balances is liquidated each year to provide subsidy payments for all units that are actually occupied, thus drawing down the outstanding balances. In addition, some of the unspent balances may be canceled because the budget authority lapses or, through enacted legislation, is rescinded.

As we understand it, the decrease in the "housing debt" portrayed in the chart can be attributed to two factors. Most of the large decline in 1985 and 1986 is explained by large rescissions of funds associated with the Administration's proposal to change the method of financing public housing construction and modernization. (This proposal is discussed further below.) Once one abstracts from the effects of this proposal, the "housing debt" would change more gradually, decreasing from about \$240 billion at the start of fiscal year 1982 to an estimated \$100 billion at the end of 1986 (see the attached chart).

In general, the gradual decrease in the level of outstanding balances—without the public housing refinancing proposal—can be explained by the fact that the amount of budget authority used up (liquidated) each year for the payment of subsidies, plus some rescissions and lapsing authority, has recently exceeded the amount of additional authority appropriated each year to fund new assistance commitments. As shown in Table 1, in 1982 the liquidations of \$8 billion—required to make payments on behalf of the assisted population in that year—were more than offset by the new authority added. As a result, outstanding balances increased by \$3.2 billion that year. By contrast, liquidations are estimated to exceed net authority added by \$4.2 billion in 1985 and by \$12.8 billion in 1986.

The projected drop in the "housing debt," beyond the decrease described above, would be due to large rescissions of funds associated with the public housing refinancing proposal.^{1/} Since 1974, the capital costs of public housing activities have been financed through short-term tax-exempt securities issued by public housing authorities (PHAs). Full principal and interest payments for these securities were made by HUD from its subsidized housing appropriations to amortize this debt over periods of up to 40 years. The PHA notes, however, matured in less than one year, necessitating continuous issuing of new notes to refinance the remaining principal. Provisions in the Deficit Reduction Act of 1984 called into question the tax-exempt status of these securities. As a result, PHAs have been unable to sell any securities since September 1984. Therefore, HUD—using funds borrowed from the Treasury—has been extending direct loans to PHAs to redeem all maturing notes with cash as well as to finance any new activities. By the end of 1986, the total amount of these direct loans to PHAs will amount to an estimated \$17.3 billion.

In its fiscal year 1986 budget, the Administration has proposed to forgive all outstanding loans to PHAs associated with the redemption of the short-term securities, as well as any future loans designed to finance activity for which funds have been reserved with 1985 or prior-year budget authority. Loans extended by Treasury to HUD associated with these activities would also be forgiven. This action, which would require legislation, would free up those outstanding balances in the subsidized housing account originally reserved to pay off the principal and interest on the short-term tax-exempt securities over long periods of time. These funds—

1. Traditionally, rescissions have been associated with recaptures of units in the pre-construction pipeline, as well as with deobligation of funds for programs that were being phased out and whose units were being converted to other programs.

amounting to \$23 billion in 1985 and another \$5.8 billion in 1986—would be recaptured and rescinded, accounting for a major portion of the large decrease in 1985 and 1986 in the outstanding "housing debt" portrayed in the chart. Future construction and modernization, authorized from 1986 on, would be financed with direct up-front capital grants.

In interpreting the ultimate impact of the Administration's refinancing proposal, it should be kept in mind that overall costs to the federal government would be little changed. The forgiveness of the direct loans to PHAs would have little effect on overall federal costs, because under both the earlier tax-exempt note scheme and the current direct loan system, the federal government pays off the principal and interest for the capital cost of public housing through the appropriations provided to the subsidized housing account. Thus, forgiving the direct PHA loans and the associated HUD borrowing from Treasury, coupled with rescinding the means to repay these loans, would simply represent canceling intra-governmental transfers of funds. Therefore, the decrease in outstanding balances of \$23 billion in 1985 and another \$5.8 billion in 1986 would not represent real savings to the federal government.

Trends in Number of Families Assisted

Over the fiscal years 1982-1985, the total number of occupied assisted housing units (the other item of information shown in the HUD chart) will increase by 681,000—from 3,297,000 at the beginning of fiscal year 1982 to an estimated 3,978,000 by the end of fiscal year 1985. The number of assisted households is projected to grow by an additional 186,000 in 1986 as a result of commitments still in the processing pipeline, reaching 4,164,000 by the end of 1986 (see Table 2).^{2/} Thus, over the entire 1982-1986 period, the number of occupied units is projected to grow by 867,000. During this same period, the total number of net additional subsidy commitments made—actual figures for 1982-1984, and Administration estimates for 1985 and 1986—would total 302,000.

Therefore, new assistance commitments made during the 1982-1986 period—net of conversions from one assistance device to another, and de-obligations of units in the processing pipeline—would account for only about one-third of the projected growth in the number of occupied units during

2. An additional 24,000 units for which funds were reserved with pre-1986 budget authority would remain in the pipeline after 1986, according to Administration estimates.

that period. The remainder of the projected growth in the number of households assisted would be accounted for by assistance commitments made prior to fiscal year 1982.

Housing Debt Versus Number of Families Assisted

While the number of families assisted has been increasing in recent years at a significant pace, the "housing debt" has been decreasing, even when one abstracts from the public housing refinancing proposal. Several factors contribute to this phenomenon. First, most of the newly assisted families are being supported with funds that were reserved prior to 1982, thus drawing down the stock of outstanding balances that were set aside for that purpose.

Second, as Secretary Pierce pointed out, in recent years, the average amount of new budget authority added annually to fund new assistance commitments has been lower than in the pre-1982 period. This is because households for whom commitments were made since 1982 are being assisted with a different mix of housing programs—primarily with the Section 8 existing-housing and voucher programs, rather than with more expensive new-construction programs. Relative to the typical mix in pre-1982 years, this new mix requires a lower amount of budget authority per household because: (1) the average annual subsidy per household is lower due to lower rents in existing housing; and (2) the average number of years for which funds are now being reserved is substantially less.^{3/} In 1981, for example, the average amount of budget authority set aside for each assistance commitment amounted to about \$95,000, and the average term of assistance was about 20 years. Under the 1985 program mix, the amount of budget authority reserved per assistance commitment will average an estimated \$63,000, providing assistance for an average of 13 years.

-
3. Another small contributing factor is that, under the new voucher program, funds are being reserved based on regulations requiring households to contribute 30 percent of their income toward rent as opposed to 25 percent in previous years, reducing the budget authority requirement for each household.

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
SUBSIDIZED HOUSING PROGRAMS
NUMBER OF FAMILIES ASSISTED AND HOUSING DEBT
1986 BUDGET**

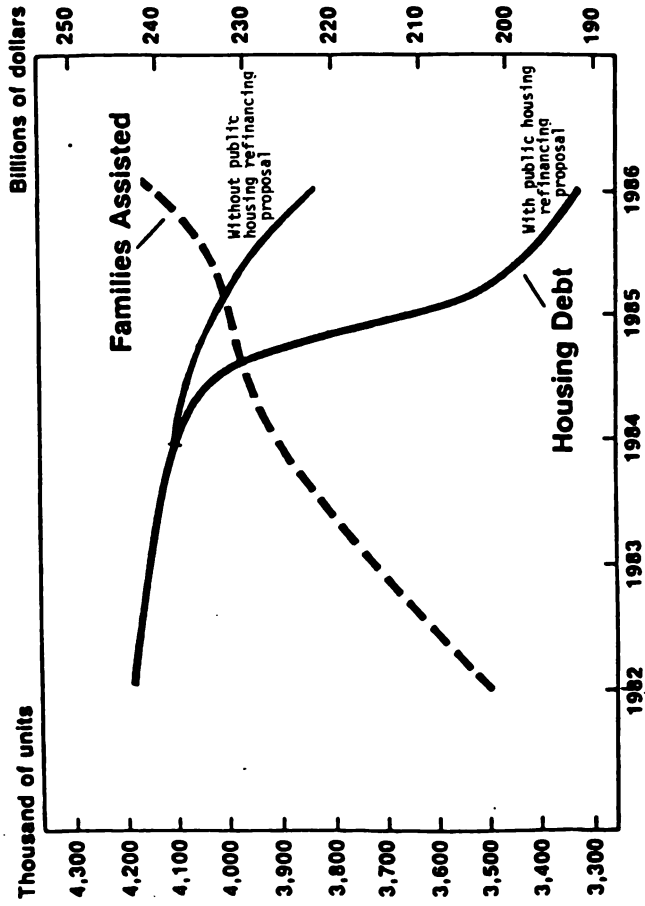


TABLE 1. UNFUNDED BALANCES FOR HUD HOUSING ASSISTANCE PROGRAMS, 1982-1986 (In billions of dollars)

	<u>Actual</u>			<u>Administration Estimate</u>	
	1982	1983	1984	1985	1986
Without Public Housing Refinancing Proposal					
Start of Year Unfunded Balances	239.9	243.1	241.5	238.9	234.7
New Authority	17.4	8.7	9.5	10.8	0.5
Rescissions	-5.2	-0.3	-1.2	-3.0	-0.9
Lapsing Authority <u>a/</u>	-0.6	-0.7	-0.7	-0.7	--
Liquidations	-8.4	-9.3	-10.3	-11.2	-12.4
End of Year Unfunded Balances	243.1	241.5	238.9	234.7	221.9
With Public Housing Refinancing Proposal					
Start of Year Unfunded Balances	239.9	243.1	241.5	238.9	211.8
Net Change from Above Activities	3.3	-1.6	-2.6	-4.2	-12.8
Proposed Rescissions	--	--	--	-23.0	-5.8
End of Year Unfunded Balances	243.1	241.5	238.9	211.8	193.2

SOURCE: Appendices to the Budget of the United States Government.

NOTE: Details may not add to totals because of rounding.

a. Net of restored authority.

TABLE 2. TOTAL UNITS OCCUPIED AND NET NEW ASSISTANCE COMMITMENTS MADE ANNUALLY UNDER HUD HOUSING ASSISTANCE PROGRAMS, 1982-1986 (Households in thousands)

	<u>Actual</u>			<u>Administration Estimate</u>		<u>Total</u>
	1982	1983	1984	1985	1986	1982-86
Units Occupied						
Start of Year	3,297	3,508	3,727	3,860	3,978	--
Newly Occupied	210	219	133	118	186	867
End of Year	3,508	3,727	3,860	3,978	4,164	---
Net New Commitments Made Annually a/						
	56	54	94	96	2	302

SOURCE: HUD Budget Justifications

NOTE: Details may not add to totals because of rounding.

- a. Net of conversions of units from one program to another, and net of deobligations of units in the processing pipeline.

BRUCE F. VENTO

4TH FLOOR 1000 KATA

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WASHINGTON, D.C. 20515
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DISTRICT OFFICE

ROOM 150

MEARS PARK PLACE
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SAINT PAUL, MINNESOTA 55101
(612) 776-7724

Congress of the United States
House of Representatives
Washington, D.C. 20515
August 24, 1984

HOUSE COMMITTEE ON
BANKING FINANCE AND
URBAN AFFAIRSHOUSE COMMITTEE ON
INTERIOR AND INSULAR AFFAIRSHOUSE SELECT COMMITTEE
ON AGING

Honorable Samuel Pierce
 Secretary
 Department of Housing and
 Urban Development
 451 Seventh Street, S.W.
 Washington, D.C. 20410

Dear Mr. Secretary:

It has been brought to my attention that the Department of Housing and Urban Development has received two applications for Urban Development Action Grants which, if approved, could have serious and adverse economic consequences for my district.

An application has been submitted by Wilmington, North Carolina and will be submitted by a city in Alabama which would facilitate the relocation of the crane manufacturing operation of American Hoist and Derrick Company. Amhoist is a well established firm that has been in St. Paul for over 100 years and presently employs 530 workers. It is my understanding that the Wilmington and Mobile applications contemplate using the UDAG to transfer the Amhoist crane manufacturing operation and most of the jobs from St. Paul to these new locations.

As you know, Section 119(h) of the Housing and Community Development Act of 1974, as amended, specifically prohibits the use of UDAG funds for relocation of an existing facility. Your evaluation of these applications should include an investigation as to whether these projects would violate the provisions of Section 119(h).

The people of St. Paul, Minnesota, our business community and the city have benefited greatly from the UDAG program. However, our success has been the result of a business, labor and government partnership which has worked hard to create new industries, new jobs and new businesses. I expect that you will impose the same job creation requirements on the Wilmington and Alabama applications as you have required from St. Paul for our UDAG projects.

I appreciate your attention to my concern on this matter, and I look forward to your response.

Sincerely,



Bruce F. Vento
 Member of Congress

BFV/ldp



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D. C. 20410

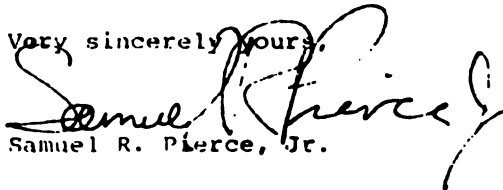
September 19, 1984

Honorable Bruce F. Vento
House of Representatives
Washington, D. C. 20515

Dear Mr. Vento:

Thank you for your letter of August 24, 1984, regarding your opposition to UDAG applications from Wilmington North Carolina and a city in Alabama. My staff is looking into the matter and we will provide you a full response as soon as possible.

Very sincerely yours,


Samuel R. Pierce, Jr.

2821

WASHINGTON, DC 20410

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

SEP 25 1984

Honorable Bruce P. Vento
House of Representatives
Washington, D.C. 20515

Dear Mr. Vento:

Thank you for your August 24, 1984 letter to Secretary Pierce concerning an Urban Development Action Grant (UDAG) application submitted by the City of Wilmington, North Carolina and a proposed application to be submitted by the City of Mobile, Alabama.

Review of these applications will include a careful investigation of the possible relocation of jobs from St. Paul. HUD will not violate Section 119(h) of the Housing and Community Development Act of 1974, as amended.

Sincerely,


Donald G. Dodge
Deputy Assistant Secretary
for Program Management

THOMSON

U.S. GOVERNMENT PRINTING OFFICE: 1985

For more information
write to:
U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON, D.C. 20540

Congress of the United States
House of Representatives
Washington, D.C. 20515
January 17, 1985

U.S. GOVERNMENT PRINTING OFFICE: 1985
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U.S. GOVERNMENT PRINTING OFFICE: 1985

Honorable Samuel Pierce
Secretary
Department of Housing and
Urban Development
451 Seventh Street, S.W.
Washington, D.C. 20410

Dear Mr. Secretary:

I am writing to you concerning the recent U.D.A.G. grant awarded to Wilmington, North Carolina for the location of an Amhoist crane manufacturing operation.

As you are aware, I have been most concerned that the application and award of this grant would result in the relocation of an existing St. Paul facility with a significant loss of jobs. Such a development would be in clear violation of Section 119 (h) of The Housing and Community Development Act of 1974, as amended.

Initially, serious concerns did exist which caused your Department to hold this grant for review. Only after the enclosed exchange of correspondence between my office and Amhoist was shared with the Department were these concerns mollified.

In its November 28, 1984 letter to me the Chief Executive Officer at Amhoist made a commitment that "at least seventy-five percent of the 763 crane related jobs traditionally and presently performed in St. Paul will remain here." Based on this letter, and other HUD/UDAG requirements, the Department proceeded with the U.D.A.G. grant.

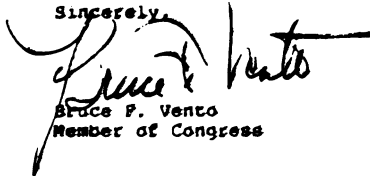
January 11, 1985, Amhoist announced the intended layoff of over 500 St. Paul employees and the intent that future crane manufacturing occur only outside Minnesota. The impact of this layoff and future plans, as reported by the enclosed news reports, are not in agreement with Amhoist's commitments. Based on a January 15 conversation I had with Mr. Nassau, Chief Executive Officer for Amhoist, it is clear that the Amhoist letter of November 28, 1984, was misleading. In that letter Amhoist failed to make it clear that 300 current positions in the St. Paul "locomotive crane" production were excluded from the number of crane related jobs.

The 500 person layoff proposed by Amhoist will have a significant impact on the St. Paul economy. In effect, the St. Paul facility will not retain a crane manufacture capacity, the existing fabricating, assembly, shipping, and locomotive crane manufacturing and the related 500 jobs will be phased out in the next 8 weeks.

Mr. Secretary, the Wilmington Amhoist U.D.A.G. grant is a violation of the provisions of Section 119 (h), as amended. The Amhoist submitted information and responses to our request for future plans and the numbers as they affect jobs and operations in its St. Paul facility have not revealed their true intent or impact. Your Department, the Mayor of St. Paul and I have tried to work with Amhoist to determine the full and complete impacts on the St. Paul facility and compliance with the law. However, we have never been provided with the full details nor clear data from Amhoist. In the Amhoist letter of September 12, 1984, to Mr. William Farris, City Manager, City of Wilmington, Mr. Nassau stated that twenty-five to thirty jobs would be transferred to Wilmington. This letter was included in the Wilmington U.D.A.G. application request and the twenty-five to thirty figure was used by your Department for the Section 119 (h) determination. In response to my letter of November 15, 1984, Amhoist stated a job loss of no more than twenty-five percent of 763 current St. Paul jobs or 191 jobs. Now Amhoist has announced layoffs of nearly 500 existing jobs in St. Paul as a result of this move, a figure that is twenty times greater than the original job loss figure provided to HUD. Furthermore, this new Amhoist information and its actions make it clear that the locomotive crane manufacture now performed in St. Paul, is scheduled to be relocated in Wilmington.

In light of this significant disparity, I strongly urge your Department to review the Wilmington U.D.A.G. award to determine the true impacts of this grant upon the Amhoist St. Paul facility and to take all possible and appropriate steps to insure compliance with the law. Since Amhoist is initiating and planning these layoffs over the next eight weeks, your timely response is essential.

Sincerely,



Bruce P. Vento
Member of Congress

BPV/cw



JAN 28 1985

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410

January 23, 1985

Honorable Bruce F. Vento
House of Representatives
Washington, D. C. 20515

Dear Mr. Vento:

Thank you for your letter of January 17, 1985, concerning the Urban Development Action Grant awarded Wilmington North Carolina for the Amhoist crane manufacturing project. My staff is looking into the matter and we will provide you a full response as soon as possible.

Very sincerely yours,

A handwritten signature in dark ink, reading "Samuel R. Pierce, Jr.", is written over the typed name. The signature is fluid and cursive.

Samuel R. Pierce, Jr.

MAR 11 1985



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

March 7, 1985

Honorable Bruce F. Vento
House of Representatives
Washington, D.C. 20515

Dear Mr. Vento:

Thank you for your letter of January 17, 1985 requesting further review of the Department's Urban Development Action Grant (UDAG) award to Wilmington, North Carolina for the Amhoist facility. The additional information you have brought to our attention regarding possible violation of provisions of Section 119 (h) raise important questions.

UDAG staff are currently conducting an in-depth review of this project with particular attention to the cause-and-effect relationship between the UDAG funded Amhoist facility in Wilmington and Amhoist's announced closing of the St. Paul facility. The review will be concluded shortly and the results will be communicated to you as soon as they are available.

I appreciate your interest in this matter.

Very sincerely yours,

A handwritten signature in cursive script, reading "Samuel R. Pierce, Jr.".

Samuel R. Pierce, Jr.

BRUCE F. VENTO
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Congress of the United States
House of Representatives
Washington, D.C. 20515
February 8, 1985

HOUSE COMMITTEE ON
BANKING, FINANCE AND
URBAN AFFAIRS
HOUSE COMMITTEE ON
INTERIOR AND RELATED AFFAIRS
HOUSE SELECT COMMITTEE
ON AGING

Honorable Samuel Pierce
Secretary
Department of Housing and
Urban Development
451 Seventh Street, S.W.
Washington, D.C. 20410

Dear Mr. Secretary:

We are writing to bring to your attention new evidence we have received which has a direct bearing on the Department's investigation of the Wilmington/Amhoist Urban Development Action Grant. This information clearly demonstrates that Amhoist intends to use proceeds from this grant to relocate jobs from St. Paul to Wilmington.

The accompanying information are internal company documents which were received by Congressman Vento's office. The information includes crane production schedules for the Amhoist Wilmington plant. As you can see, during the next 10 months Amhoist plans to produce 27 cranes from the 700, 800 and 900 series in Wilmington. In the absence of this grant, all of these cranes would be produced in St. Paul. We believe that this information provides the Department of Housing and Urban Development with incontrovertible evidence that Amhoist intends to use the grant to relocate its crane production facility from St. Paul to Wilmington, North Carolina.

We feel Amhoist has not been candid with the Department nor with Congressman Vento concerning the possible relocation of the St. Paul plant and its losses in its July 30 U.D.A.G. application. Amhoist stated that 25 jobs will be transferred to Wilmington. On November 28, Amhoist wrote in response to a letter from Congressman Vento that 75% of the crane related jobs would remain in St. Paul. Finally, on January 11, Amhoist publicly announced that all crane related manufacturing, production, fabrication and assembly jobs would be lost. Fully 500 St. Paul workers, virtually the entire St. Paul plant crane assembly work force, are scheduled to be out of a job by April 1. In six short months, the projected job loss in St. Paul, as a direct result of this grant, has increased by 20 fold.

The public announcement of January 11 combined with the Wilmington production schedule, clearly shows that Amhoist has every intention of continuing production of cranes which have been built in St. Paul. The 700, 800 and 900 cranes will continue to roll off the assembly line. In fact, these cranes will be made with the machinery and equipment from the St. Paul plant which Amhoist is moving to Wilmington. As a result of this U.D.A.G. these cranes will be built in a federally assisted facility in Wilmington and the skilled men and women who previously made these cranes will be standing in the St. Paul unemployment lines.

Amhoist undoubtedly wishes to gain economies of scale and consolidate operations in order to produce a less costly product. These are understandable corporate goals. The purpose of the U.D.A.G. program is not a manufacture consolidation program, but rather a job creation program. These actions cannot legally be accomplished with U.D.A.G. funds. As you know, there is nothing which prohibits Amhoist from moving its entire St. Paul plant to Wilmington, North Carolina, if it is totally privately financed. However, Amhoist has solicited direct federal government assistance for its new Wilmington plant. There are specific clear conditions under which they receive this federal help. The anti-pirating provision of 119 (h) is one of the conditions specified by the law. Other communities and companies have made excellent use of this program and have obeyed the spirit and letter of the law; Amhoist Corporation is required to do no less.

As Chairmen and members of the Committee and Subcommittee of jurisdiction for H U D. and the U D.A.G. program, we believe this information raises serious questions concerning the Department's policies designed to insure that U D.A.G. recipients comply with the requirements of 119(h). Since August Congressman Vento has repeatedly raised these concerns to the Department and with Amhoist Corporation. The Wilmington U.D.A.G. application contained an actual list of equipment which Amhoist is moving to the new Wilmington plant. More than 90% of that equipment is to be removed from the St. Paul plant. Congressman Vento's office even provided documentation to show that the serial numbers of this equipment matched the equipment now in use in Amhoist's St. Paul crane manufacture facilities. The transfer of this equipment leaves the St. Paul plant without any crane production capacity. Despite the fact that the Department possessed this equipment list, preliminary approval was given for this grant and has continued.

Congressman Vento's January 17 letter and the Amhoist's public announcement of January 11 provided the Department with irrefutable evidence that the entire crane production operation at St. Paul would be shut down. The information accompanying this letter documents that Amhoist intends to relocate production from St. Paul to Wilmington.

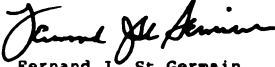
We have shown that Amhoist: (1) is moving the equipment from the St. Paul plant to Wilmington; (2) that the St. Paul plant is to be closed; and (3) that the production previously occurring in St. Paul will be transferred to Wilmington. What more evidence does the Department need to rescind this grant?

The documentation which Congressman Vento has provided to the Department is exactly the kind of information which the Department should compile itself. The Department of Housing and Urban Development, not Congress, is charged with enforcement of 119(h). Unless the Department has obtained information which it has not shared with Congress, we feel the information the Department has received from us is sufficient to warrant the cancellation of this grant.


We urge you to examine these documents carefully and specifically request that you report to us what actions the Department has taken as a result of this letter, the accompanying documents, and previous correspondence with you.

We look forward to your prompt reply.

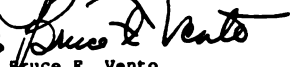
Sincerely yours,



Fernand J. St Germain
Chairman, Committee on
Banking, Finance, and
Urban Affairs



Henry B. Gonzalez
Chairman,
Subcommittee on
Housing and Community
Development



Bruce F. Vento
Member of Congress

Description of Documents Enclosed

This information is taken from an internal memo signed by Rick O'Connell, master scheduler and dated 1/21/85 (cover page enclosed).

The document entitled 700 Series Schedule Wilmington is the Wilmington production schedule for 13 separate 700 series cranes. This production schedule reveals the shop order number, the crane model number, customer's name, the scheduled date to begin and finish production of each crane, and the shipping date.

This production schedule demonstrates that Amhoist intends to continuously produce these cranes in Wilmington throughout the entire time period covered by this production schedule. The 700 series crane production is scheduled to be done in Wilmington at least through November 1985.

The 700 series crane has been made in St. Paul for more than 15 years.

The document entitled 900 Series Schedule Wilmington is the Wilmington plant's production schedule for 13 separate 900 series cranes. This production schedule reveals the shop order number, the crane model number, customer's name if available, the scheduled date to begin and finish production of each crane and the shipping date.

This production schedule demonstrates that Amhoist intends to continuously produce these cranes in Wilmington throughout the entire time period covered by this production schedule. The 900 series crane production is scheduled to be done in Wilmington at least through November 1985.

The 900 series crane has been made in St. Paul for more than 20 years.

The document entitled 800 Series Schedule Wilmington is the Wilmington plant's production schedule for a single 800 series crane. The production schedule reveals the shop order number, the crane model number, customer's name if available, the scheduled date to begin and finish production of the crane and the shipping date.

This production schedule demonstrates that Amhoist intends to produce this crane in Wilmington. If the Wilmington plant was not available this crane would have been produced in St. Paul.

The 800 series crane has been made most recently in St. Paul.

The document entitled 500 Series Schedule Wilmington is the Wilmington plant's production schedule for 8 series 500 cranes. The production schedule reveals the shop order number, the crane model number, customer name, if available the scheduled date to begin and finish production of these cranes and the shipping date.

The 500 series crane has traditionally been made at the St. Paul plant and at other locations.

This production schedule demonstrates that Amhoist intends to produce this crane in Wilmington. If the Wilmington plant was not available, some of the cranes would have been produced in St. Paul.

The two documents entitled 700 Crawler Final Assembly Schedule show the production schedule for a single crane (build order #C-10745). The same crane (build order #C-10745) also appears in the 700 Series Schedule Wilmington. The dates for "on line" and "ship" from the 1-21-85 revised schedule match the dates on the 700 Series Schedule for the first 700 series crane to be produced in Wilmington.

The two page document entitled 900 Crawler Final Assembly Schedule shows the production schedule for 4 series 900 cranes (build order numbers 10749, 10748, 10752 and 10751). Three of these cranes (build order numbers 10748, 10752 and 10751) also appear in the document 900 Crawler Final Assembly Schedule as the first three 900 series cranes to be produced in the Wilmington plant. The "on line" and "ship" dates for build #10751 are the same on both the Final Assembly Schedule and the Series Schedule. There is a two week difference between the "on line" and "ship" dates for build order #10748. Presumably, build #10749 was constructed in St. Paul.

The document entitled Crawler and Truck Crane Bulletin Schedule shows two previously completed cranes being held as inventory in Wilmington.

The final document is an internal Amhoist memorandum from Roger (Skip) Ohman to Bill Hobbs and Bob Clark. It is dated January 28, 1985, and is a progress report on the initial operations and renovation of the Amhoist Wilmington plant. The most relevant items in this document are I 6 (a) and (b) and II 3 (a), (b) and (c). Item I 6 (a) shows that an 800 series crane has been assembled in the Wilmington plant. I 6 (b) shows that assembly has begun on a series 500 crane in the Wilmington plant. Items II 3 (a), (b) and (c) show that Amhoist intends to assemble and test 800 series locomotive cranes, continue assembly of series 500 cranes and begin production of series 700 cranes in the Wilmington plant.

Amholt AMERICAN HOIST & DERRICK COMPANY

**THE CONSTRUCTION
EQUIPMENT GROUP**

TO:

FROM: Rich O'Connell

SUBJECT: Wilmington Schedule

DATE: 1/21/85

REFERENCE:

COPIES TO:

Attached is the forecast by series and the final Assy. schedule for the 3rd and 4th Period for the Wilmington Plant.

If any questions, please call.

Rich O'Connell
Rich O'Connell
Master Scheduler
RO'C/cc

declined to discuss -

2831

2832

700 SERIES SCHEDULE "Wilmington" date 1-7-85 by Rich O C

SALE ORDER	Shop Order	Model	Customer	On line	ship date	ship week	misc.
		**	PERIOD #3-- 1 unit	**			
	C-10745	7260	STOCK	3/6*	3/6	3/4/5	
		**	PERIOD #4-- 0 units	**			
		**	PERIOD #5-- 2 units	**			
	C-10746	7260	STOCK	4/2	4/24	4/24/5	
	C-10754	7150-T	STOCK	4/7	4/8	4/8/5	
		**	PERIOD #6-- 2 units	**			
	C-10757	7220	STOCK	4/4	6/5	6/5/5	
	C-10758	7260	STOCK	4/29	6/19	6/19/5	
		**	PERIOD #7-- 1 unit	**			
	C-10759	7260	STOCK	7/3	7/24	7/24/5	
		**	PERIOD #8-- 3 units	**			
	C-10760	7150-T		8/7	8/28	8/28/5	
	C-10761	7220	STOCK	8/13	9/4	9/4/5	
	C-	7720-P		8/20	9/11	9/11/5	
		**	PERIOD #9-- 1 unit	**			
	C-	7260		9/4	9/25	9/25/5	
		**	PERIOD #10-- 3 units	**			
	C-	7260		10/9	10/20	10/20/5	
	C-	7220		10/16	11/6	11/6/5	
	C-	7150-T		10/23	11/13	11/13/5	
* 5 EST ca Days L.A. Time							

7-100

2833

900 SERIES SCHEDULE ^{Wilmington} date 1-7-85 by Rich O.C

SALE ORDER	Shop Order	Model	Customer	K-17 (C-15-)			
				on line	ship date	ship week	mis.
		**	PERIOD #3-- 1 UNIT	**			
	C-10748	9310	STOCK	3/8*	3/12	3/15	
		**	PERIOD #4-- 2 UNITS	**			
	C-10751	9310	STOCK	3/14	4/9	4/9/5	
	C-10752	9320	STOCK	3/21	4/16	4/16/5	
		**	PERIOD #5-- 1 UNIT	**			
	C-10750	9320	STOCK	4/4	4/20	4/20/5	
		**	PERIOD #6-- 2 UNITS	**			
	C-10762	9320		5/9	6/4	6/15/5	
	C-10747	9320	STOCK	5/23	6/18	6/18/5	
		**	PERIOD #7-- 1 UNIT	**			
	C-10763	9320		6/27	7/23	7/23/5	
		**	PERIOD #8-- 2 UNITS	**			
	C-10765	9320		8/2	8/27	8/26/5	
	C-10764	9720-P		8/9	9/4	9/4/5	
		**	PERIOD #9-- 2 UNITS	**			
	C-	9320		8/29	7/24	9/22/5	
	C-	9320		8/13	10/8	11/4/5	
		**	PERIOD #10-- 2 UNITS	**			
	C-	9310		10/4	11/29	11/28/5	
	C-	9320		10/18	11/12	11/12/5	
* 5 Extra Days Line Time							

7

"Wilmington"
500. SERIES SCHEDULE

date 1-7-84

by Rich O'C

SALE ORDER	Shop Order	Model	Customer	on line	ship date	ship week	misc.
		**	PERIOD #3-- 3 units	**			
AR5296-S	C-10698	5530-C	T.K.I.				order is C-10698
AR5295-F	C-10699	5530-C	T.K.I.				order is C-10696
AR5294-F	C-10700	5530-C	T.K.I.				order is C-10697
		**	PERIOD #4-- 0 units	**			
		**	PERIOD #5-- 1 unit	**			
	C-10709	5530-C	STOCK	4/12	7/9	7/6/5	
		**	PERIOD #6-- 1 unit	**			
	C-10756	5530-C	STOCK	4/15	4/19	4/6/5	
		**	PERIOD #7-- 1 unit	**			
	C-10766	5530-C		7/9	8/1	7/27/5	
		**	PERIOD #8-- 0 units	**			
		**	PERIOD #9-- 1 unit	**			
	C-10767	5530-C		9/17	10/15	10/4/5	
		**	PERIOD #10-- 1 unit	**			
	C-	5530-C		10/22	11/19	11/15/5	

1/16/00

700 Crawler FINAL ASSEMBLY SCHEDULE R.O.C.

ATE 12 - 3 - 84. Page 3 of 3

BUILD ORDER	C. 10745		C.	
MODEL	7260			
SALE ORDER	A.		A.	
CUSTOMER	STOCK			
WRITE-UP	OK			
ENGINEERING				
SWING	STA			
TRAVEL	IND.			
A.L.L.	R.H.			
3RD DRUM				
HAMMERHEAD				
OPT.				
OPT.				
OPT.				
CENTER BASE WELD	3/5	10/4		
MACH	3/14	3/24/84		
RACER	AVAIL	3/19		
ON-LINE (BOTTOM)	3/20			
UPPER	3/28			
LARGING AVAIL				
DRUM	INST	3/26		
MAST	INST	3/27		
TRANSMISSION	AVAIL	3/5		
ENGINE	AVAIL	GM 6-71		
INST	3/28			
CAB	AVAIL	STD		
INST	3/1			
AXLES	RUFF	3/11	X	
MACH	3/25			
SIDE FRAMES	WELD	3/11	JCR	
MACH	3/22			
ASSY	3/28			
BULL GEAR	RUFF	3/5		
MACH	3/19			
CABBODY	RUFF	3/5	OK	
MACH	3/19			
WELD	3/23			
ASSY	3/28			
LAND	3/4			
SHIP INSTRUCTIONS				
RIG & TEST	3/7			
BUG	3/7			
LOAD	3/11			
PAINT	3/13			
SHIP	3/13			
COUNTER WEIGHT	5-5			
Block(s)				
BALL				
BOOM	57-5			
SHOES. SIZE / DTY	44" / 74			

EIGHT THE 31st PRIOR

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900 CRAWLER FINAL ASSEMBLY SEND DUE R.O.C
12-21-84 1 PAGE 4 of 4

WELD ORDER	C-10752		C-10751	
MODEL	9220		9310	
LE ORDER	A.		A.	
STOMER	STOCK		STOCK	
TS. UP	OK		OK	
INERINS	48" RAIL STEEL			
ING	STD.		"R18"	
VEL			R.H.E.L.H.	
L.				
DRUM				
INNERHEAD				
OPT.	Fitted "A" Frame			
OPT.	Excess Length			
OPT.	Foot Extension			
PER BASE WELD	3/26		3/27	
MACH			3/28	
PER AVAIL			3/28	
LINE (BOTTOM)			3/29	
PER			3/29	
LARGING AVAIL			3/31	
WIM INST			3/32	
IT INST			3/32	
MISSION - AVAIL	3/5		3/5	
LINE - AVAIL	GM12V-71 OK		MT-955-C	
INST			3/26	
AVAIL	STD		STD	
INST			3/27	
PER			3/27	
MACH			3/29	
FRAMES WELD	X		3/29	
MACH			3/29	
ASSY			3/26	
LL GEAR	RUFF		3/27	
MACH			3/23	
BODY	RUFF	STW-90118	3/27	C.RST-5/N
MACH			3/29	
WELD			3/29	
ASSY			3/26	
IND			3/28	
INSTRUCTIONS				
1 TEST			4/1	
BUG			4/3	
LOAD			4/4	
PAINT			4/8	
SHIP			4/9	
INTERWEIGHT	K-K		S-S	
DER (J)				
164				
100M	58" - 1/6 On Tor			
055. SIZE / DTY	44" / 90		50" / 106	

End of the 1st Period

Revised 900 CRAWLER FINAL ASSEMBLY SCHEDULE 190
 DATE 12-21-84 1 Page 3 of 4

BUILD ORDER	C-10749		C-10748	
MODEL	9120		9310	
SALE ORDER	AP-3309		A.	
CUSTOMER	EQUIPED		STOCK	
WRITE-UP	NA		OK	
ENGINEERING				
SWING	STD.		AIR	
TRAVEL				
C.L.L.	NONE		R.H.E.H.	
3RD DRUM	NONE			
HAMMERHEAD	NONE			
OPT.	18" Top Line	Insulated Cab		
OPT.	Ext. "H" Frame			
OPT.	6x 8x 10x 12x 14x 16x 18x 20x 22x 24x 26x 28x 30x 32x 34x 36x 38x 40x 42x 44x 46x 48x 50x 52x 54x 56x 58x 60x 62x 64x 66x 68x 70x 72x 74x 76x 78x 80x 82x 84x 86x 88x 90x 92x 94x 96x 98x 100x			
CENTER BASE WELD	1/3	1/30	1/10	1/13
MACH	1/4	1/10	1/11	1/13
RACER	AVAIL	1/17	1/14	1/10
ON-LINE (bottom)	1/18		1/15	
UPPER	1/23		1/20	
LARGING	AVAIL			
DRUM	INST	1/25	1/1	1/28
MAST	INST	1/28	1/4	1/28
TRANSMISSION	AVAIL	3/5	3/6	
ENGINE	AVAIL	NT-855-C	1/15 SHIP	NT-855-C
INST	1/30		1/6	
CAB	AVAIL	STD		STD
INST	1/31		1/7	
AXLES	RUFF	1/11	X	604076-79"
MACH	1/23	12/17	1/30	
SIDE FRAMES	WELD	1/11		1/18
MACH	1/23	Fin-10x10	1/30	1/18
ASSY	1/30		1/6	
BULL GEAR	RUFF	1/3	X	1/10
MACH	1/19	X	1/24	
CARGO	RUFF	1/3	X	1/10
MACH	1/17	X	1/24	
WELD	1/23	1/17	1/30	
ASSY	1/30		1/6	
LAND		1/1	1/8	
SHIP INSTRUCTIONS				
RIG & TEST	1/5		1/12	
BUG	1/7		1/14	
LOAD	1/8		1/15	
PAINT	1/11		1/18	
SHIP	1/12		1/19	
COUNTERWEIGHT	K-K		S-S	
BLOCK (D)				
BALL				
BOOM	58" 1/2-10x10x12x14x16x18x20x22x24x26x28x30x32x34x36x38x40x42x44x46x48x50x52x54x56x58x60x62x64x66x68x70x72x74x76x78x80x82x84x86x88x90x92x94x96x98x100x	1/10	1/10	
SHOES. 5/28/10x12x14x16x18x20x22x24x26x28x30x32x34x36x38x40x42x44x46x48x50x52x54x56x58x60x62x64x66x68x70x72x74x76x78x80x82x84x86x88x90x92x94x96x98x100x	44" 190		50" 106	

"Wilmington"

CRAWLER AND TRUCK CRANE BUILDING SCHEDULE							3rd Period 1965 R. O'Connor 1-21-65	
Machines from previous periods that are in process, built and in stock, or held by Sales.							Remarks	
Seq.	Series	Factory Number	A-Order	Model	Customer	Built by Firmage	Built Shipped	
1	500	C-10561		5530-T	STEAK			5/10 2416 Carried only
2								
3								
4								
5	"700"	C-10660		7260	STEAK	3rd-85		Built in ST. Paul
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								

JAN 31 1985

nholt

AMERICAN HOIST & DERRICK COMPANY 63 SOUTH ROBERT STREET, ST. PAUL, MN 55104

TO: Bill Hobbs & Bob Clark

REFERENCE:

FROM: Roger (Skip) Ohman

SUBJECT: Execution Summary, Wilmington Plant

COPIES TO:

DATE: January 28, 1985

I. Major Progress

1. Our last coordination team meeting was held from 8:00 a.m. to 5:00 p.m. on Tuesday, January 22. At this meeting we reviewed:
 - a. Orange Book Review.
 - b. Review status production requirements.
 - c. Review status of Miller progress.
 - d. Site visit and review.
 - e. Other significant developments.
 - f. Jerry Strickland (training) & Duke Fuehrer-reviewed & explained training milestones.
 - g. Tom Rondot (accounting) & Mark Metz-reviewed & explained accounting milestones.
2. We established future meeting schedules for the project coordination team.

February 5, 1985	- 8:00 a.m.	- St. Paul - 6th Floor
February 19, 1985	- 8:00 a.m.	- Wilmington Plant
March 20, 1985	- 8:00 a.m.	- Wilmington Plant
April 24, 1985	- 8:00 a.m.	- Wilmington Plant
May 22, 1985	- 8:00 a.m.	- Wilmington Plant
June 19, 1985	- 8:00 a.m.	- Wilmington Plant
July 24, 1985	- 8:00 a.m.	- Wilmington Plant

3. Major construction progress as of January 28 consisted of:

- (a) Main Admin. Bldg. is 75% complete.
- (b) Original 13 foundations is 85% complete.
- (c) All engineering for foundation, bldgs., etc. is 90% complete.
- (d) Painting of interior of bldg facilities is 75% complete.
- (e) Downdrops in main factory, air, elect., gases, etc. 60% complete.
- (f) Modification of existing inventory bldg. - 35% complete.
- (g) Main entrance sign up.

4. Major progress in training.

- (a) We are continuing to develop managers' (transferees and new hires) by specifics of continuing education in courses covering the non-union environment and working in North Carolina.
- (b) One class of assemblers have been completed.
- (c) A second class of assemblers will be completed by February 4.
- (d) One class of fitters-welders is 50% complete.
- (e) One class of machinists have been started.
- (f) Initiate our first new employee orientation program (8 week program).

5. Major organization progress.

- (a) The structural department supervision have been finally established with Marv Mithulis having a Eugene Harm, Jimmy Richardson and Earl Guyton join him as supervisors.
- (b) Our first full time production employees will have started work by Feb. 4 - 14 Total. They join our approximately 25 office and supervisors now on board.
- (c) Formal staff meetings have been initiated at Wilmington between all individuals reporting to me.
- (d) Successfully held "Wilmington Appreciation Day" thanking Wilmington area.
- (e) Have established change order control system for construction project.
- (f) Have initiated involvement of managers in Wilmington budget.

6. Major production progress.

- (a) Completed assembly of first 870 locomotives.
- (b) Have initiated assembly of 5530's.
- (c) Assembly department is being organized.

II. Major Next Steps, by February 19.

1. May construction goals for February 19.

- (a) Complete interior of admin. bldg.
- (b) Complete installation of original 13 foundations & equipment.

- (c) Complete modification of existing inventory bldg. with loading docks, racks, and adjacent outdoor storage area.
 - (d) Have substantial progress made in foundation in addition to original 13.
 - (e) Complete Mfg. engineering office renovation.
 - (f) Substantial completion of paint complex (cranes) at end of assemble department.
2. Major people goals.
- (a) Continue to recruit and train production people according to attached training schedule.
 - (b) Publish handbook.
 - (c) Publish safety manual.
 - (d) Bring all existing employees (office) up to date into our full orientation program.
 - (e) Establish basic accounting staff (office).
 - (f) Establish basic production control staff (office).
 - (g) Establish basic purchasing staff (office).
 - (h) Initiate employee communication/participation plans.
3. Major product goals.
- (a) Continue to assemble/test locomotives as scheduled.
 - (b) Substantial progress on 5530's.
 - (c) Initiate assemble of 7000 hydraulic.
4. Major training goals.
- (a) Initiate full blown safety training.
 - (b) Submit initial reimbursement requests for training program.
 - (c) Enroll initial personnel into "O.J.T." contracts under appropriated programs.
 - (d) Finalize arrangements for OJT done in house.
 - (e) Develop production support and prefabrication preemployment training.

5. Organizational goals.

- (a) Firmly establish our safety committee.
- (b) Review progress on minority hiring goals.
- (c) Do a thorough review of project costs to date.

III. Major Areas of Concern That I Will Address.

- 1. Getting foundation construction up to date.
- 2. Finalizing review of dates desired for foundations.
- 3. CAD/CAM plans for Wilmington.
- 4. NC tape support needed for Machine Shop.



BRUCE F. VENTO

4332 MAYNARD PARKWAY, LITTLE ROCK, ARKANSAS
 72204-1000 D.C. 20515
 (202) 775-6611

DISTRICT OFFICE
 BUILDING 150
 NEARBY PARK PLACE
 405 BIRNEY STREET
 SAINT PAUL, MINNESOTA 55101
 (612) 725-7724

Congress of the United States
House of Representatives
Washington, D.C. 20515

HOUSE COMMITTEE ON
 BANKING, FINANCE, AND
 URBAN AFFAIRS

HOUSE COMMITTEE ON
 INTERIOR AND INSULAR AFFAIRS

HOUSE SELECT COMMITTEE
 ON AGING

March 11, 1985

Honorable Samuel Pierce
 Secretary
 Department of Housing and
 Urban Development
 451 Seventh Street, S.W.
 Washington, D.C. 20410

Dear Mr. Secretary:

I am pleased to learn that you will be testifying before the Subcommittee on Housing and Community Development on Wednesday, March 13, 1985.

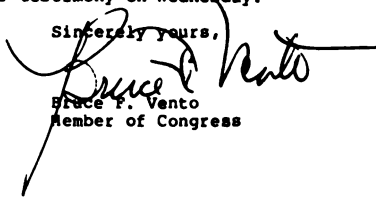
During your appearance before the Subcommittee you should be prepared to respond to questions regarding the Wilmington, North Carolina/Amhoist Urban Development Action Grant. You should be prepared to discuss all aspects of this UDAG including, but not limited to, the following questions:

1. What is the Department's final decision concerning the Wilmington/Amhoist UDAG?
2. What is the Department's justification for this decision in light of the concerns raised by Chairman St Germain, Chairman Gonzalez and myself in our letter of February 8, 1985, that this UDAG will facilitate the relocation of jobs and facilities from St. Paul?
3. What specific actions did the Department take to ascertain whether this UDAG would facilitate the relocation of jobs and facilities?
4. What formal procedures have been implemented by the Department to make its 119(h) determination?

Mr. Secretary, your appearance on March 13 is almost two weeks after the date your department promised to make a final decision on this specific UDAG. It is a full month after you recieved the letter from Chairman St Germain, Chairman Gonzalez and myself. It is two months since Amhoist publicly announced the shut down of the St. Paul factory and the permanent layoff of 450 employees. Finally, it is 6 months since I initially brought my concerns about the misuse of this UDAG grant application to your attention. In light of the above stated facts and the fact that my office has on three separate occasions informed the Department that this topic would be the subject of questioning at this hearing, I expect that you will be able to fully and candidly discuss this matter with the Subcommittee.

I look forward to your testimony on Wednesday.

Sincerely yours,



Bruce F. Vento
Member of Congress

BFV:am



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

March 11, 1985

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

Honorable Bruce A. Vento
House of Representatives
Washington, D.C. 20515

Dear Mr. Vento:

As HUD continues to review the Urban Development Action Grant (UDAG) awarded to Wilmington, North Carolina for the Amhoist facility, a number of factual discrepancies have come to light.

One important discrepancy is the estimate of the number of cranes traditionally built in the Amhoist St. Paul facility, which Amhoist will build in the new Wilmington facility.

Amhoist has given us detailed company production records which show that two cranes traditionally built in St. Paul will be built in Wilmington. You have stated to HUD that this number is thirteen cranes. Please provide me with the information used to make this estimate so that HUD can properly judge the credibility of these two very different estimates and resolve the factual issue.

Due to the urgent need to resolve this matter, I request that you respond to me no later than Friday, March 15, 1985.

Sincerely,

Jeffrey A. Finkle
Acting Deputy Assistant Secretary
for Program Management

BRUCE F. VENTO

2700 PINE STREET, SEATTLE, WASH.

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Congress of the United States
House of Representatives
Washington, D.C. 20515

March 12, 1985

HOUSE COMMITTEE ON
 BANKING, FINANCE AND
 URBAN AFFAIRS
 HOUSE COMMITTEE ON
 INTERIOR AND REGULAR AFFAIRS
 HOUSE SELECT COMMITTEE
 ON AGING

Mr. Jeffrey A. Finkle
 Acting Deputy Assistant
 Secretary For Program
 Management
 U.S. Department Of H.U.D.
 Washington, D.C. 20410

Dear Mr. Finkle:

Thank you for your March 11th letter, which I received at 5:00 pm yesterday, requesting a further description of my concerns regarding the Wilmington/Amhoist Urban Development Action Grant.

My concerns have been stated in correspondence with Secretary Pierce since last August. I would hope that you are familiar with those letters. However, let me provide you with a brief description of that correspondence.

On August 24, 1984, I wrote Secretary Pierce expressing my concern that the Wilmington/Amhoist UDAG "...contemplates using the UDAG to transfer the Amhoist Crane manufacturing operation and most of the jobs from St. Paul...". In addition, this letter asked Secretary Pierce to investigate whether this project would violate the anti-pirating provisions of 119(h).

My January 17 letter to Secretary Pierce sought to bring to the Secretary's attention Amhoist's public announcement that they intend to permanently lay off 500 production workers and to eliminate all crane production in St. Paul. This letter continued to emphasize my concern that these jobs would be relocated to the UDAG-assisted Wilmington plant. My letter asked the Secretary to resolve this matter promptly because the layoffs were to take place within the succeeding ten weeks. In addition, on January 17, I met with departmental representatives. During that meeting we had a lengthy discussion concerning this UDAG. The H.U.D. representatives pledged to have this investigation completed by February 28th. Since you attended that meeting, I am certain that a more in-depth summary of the discussion is not necessary.

On February 8th, Chairman St Germain, Chairman Gonzalez and I wrote to Secretary Pierce. This letter described certain documents which we received and expressed our belief that this information had a material bearing on the question of the relocation of jobs and facilities. These internal company documents showed that the Wilmington facility will be used to manufacture products which were previously produced at the St. Paul facility. This letter and the accompanying documents were hand delivered to you by my staff on February 8, 1985.

In addition to my letters to Secretary Pierce I have repeatedly contacted the company to make them aware of my concerns. My November 15 letter to Amhoist repeated my concerns about possible violations of Section 119(h) and specifically asked Amhoist to publicly and in writing commit itself to a meaningful manufacturing presence in St. Paul. On November 28, Amhoist responded with a letter that indicated to me that they intended to maintain 75 percent of existing employment at the St. Paul plant. In light of the large fluctuations in employment in crane manufacturing operations, this appeared to be a good faith effort to maintain crane production in St. Paul. The January 11 public announcement by Amhoist that it will shut down crane production in St. Paul and permanently lay off 500 workers was a direct contradiction to their earlier letter. It was at this point that I met with you and other departmental representatives and renewed my request for an investigation to ascertain whether this UDAG would violate Section 119(h).

My concern about the UDAG has been communicated, in writing, to the Department on three separate occasions. Also I have personally discussed this matter with you. My staff has discussed the matter with you and with other Department employees, many times.

My concerns about the grant are quite clear. First, I am concerned that this UDAG will facilitate the relocation of the crane production operation and approximately 500 jobs from St. Paul to Wilmington. This is a violation of the anti-pirating requirement of Section 9(h). Second, I am concerned that the Department was not able to meet its own February 28 deadline and that the Department's investigation is inadequate in addressing the concerns I have consistently expressed. It has been a total failure to this point.

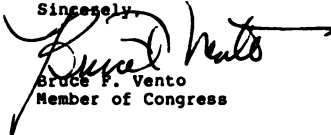
To address your specific inquiry, I don't know from which source you have obtained the information that 13 cranes of the type previously produced in St. Paul will now be produced in Wilmington. The 13 crane figure is not one I have used. The internal company documents now in the possession of your Department, show that the company plans to produce 26 cranes in Wilmington which would have been produced in St. Paul prior to the existence of the Wilmington UDAG-assisted facility. In other words, the significance of the 13 crane figure is that it represents one-half of the amount of St. Paul production which company documents state will be produced in Wilmington during the first nine months of operation of the Wilmington UDAG-assisted plant.

Finally, it is most disturbing to receive this flawed request for information at this late date. If the Department required additional information from my office why was this request made five weeks after we shared information with the Department and two weeks after the pledged completion date of the investigation? More importantly this request illustrates a consistent problem with H.U.D.'s investigation of this matter. It is an administrative responsibility not a Congressional responsibility to investigate this UDAG. I've repeatedly attempted to cooperate only to be frustrated with the lack of information - sharing and half-hearted pursuit of the issue and concerns that have been raised.

As a member of the Committee with jurisdiction over this program and the Representative from the affected district, I have raised serious concerns about this specific UDAG and I have willingly provided the Department with the information I have received to support such concerns. However, this request for information at such a late date leads one to believe that either the Department hasn't reviewed the information contained in the February 8th letter or that the Department seeks an excuse to delay its decision past tomorrow's hearing and, more importantly, to delay until the plant is in fact closed! Frankly, I don't think the working people of St. Paul have received a fair shake from HUD.

I hope this response sufficiently conveys my displeasure and my strong expectation that in responding to your letter promptly you would therefore be able to discuss this correspondence with the Secretary prior to his appearance before the Housing and Community Development Subcommittee, Wednesday. It is my desire that the Secretary be able to discuss this matter fully and candidly during the Subcommittee hearing - Wednesday.

Sincerely,



Bruce F. Vento
Member of Congress

BFV/am

HOUSING ACT OF 1985

THURSDAY, MARCH 14, 1985

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT,
Washington, DC.

The subcommittee met, pursuant to call, at 9:50 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez (chairman of the subcommittee) presiding.

Present: Representatives Gonzalez, Mitchell, Schumer, Levin, McKinney, and Bartlett.

Chairman GONZALEZ. The subcommittee will come to order.

The subcommittee has included in this year's housing reauthorization bill, H.R. 1, the Housing Act of 1985, a homeownership demonstration program known as the Nehemiah Housing Opportunity Grant Demonstration Program. I put this program into the bill on the request of Mr. Schumer, a distinguished member of this subcommittee, and because of the fine results the subcommittee was able to see on a recent visit to the Nehemiah site.

In April of last year, the subcommittee visited the Nehemiah project located in East Brooklyn, NY, and was able to view firsthand the joint and cooperative efforts of the local Nehemiah neighborhood residents, private developers, the city and State of New York in developing homeownership opportunities for low- and moderate-income persons in the area. The Nehemiah plan provides local low-income residents with an opportunity to stay in their neighborhood and represents a new effort to revitalize a neighborhood which has undergone severe economic blight.

I am also fortunate, as Mr. Schumer, to have in my district a program which provides homeownership opportunities to existing residents. This program, known as the Replacement Housing in Select Housing Target Areas, provides owners of substandard, dilapidated houses, living in low-income neighborhoods, with Federal relocation funds and community development block grant funds for the construction of modest replacement houses, often located a few blocks from the owners' original substandard house.

I have asked Mr. Winston Martin, executive director of the San Antonio Development Agency, to provide us with a summary of his replacement housing program and comments on the Nehemiah Demonstration Program. His comments will be invaluable to the subcommittee, given his work with citizen groups in San Antonio and his extensive background in planning and community development.

The subcommittee is also fortunate to have testify today Ms. Helen Ayala, president of the Communities Organized for Public Service, who represents one citizens group in San Antonio, which has worked with Mr. Martin in providing replacement housing in San Antonio's very low income areas.

I look forward to the testimony of all our four panels—the church leaders, the Nehemiah homeowners, the Nehemiah program witnesses, and the community groups.

Gentlemen, Secretary Pierce said that he was following his coach's [President Reagan] order yesterday. I would wish, because we needed your help yesterday, that you could have been here, and some of my colleagues that were desperately needed present, because of the nature of the personality that happens to occupy that secretaryship.

We are fighting a life and death struggle this year. Policies that the Congress have established as national policies for 44 years are intended to be zeroed out on—what is most galling of all—on a budgetary cross of callous indifference to the suffering that we have had witness after witness testify to; from the level of the Archbishop of New York to those directly involved in public housing.

So with that backdrop, I want to point out how important your testimony is here, but advise you that every one of us in this Congress will be working in such a way that your witness will be ignored. It will be dismissed. It won't even be entered into the equation of consideration.

The Secretary's message was very plain. It should not have offered any equivocation. It was stated here publicly.

The question is, can we obtain the necessary resolve from the majority of those serving in the House, particularly, and of course in the Senate. The latest actions on the Senate level were, the President's party in power, on the budget matter clearly illustrates that they have adopted the President's preemption as a lesser priority.

On the question of shelter for no less than 33 percent had the gall to tell us there was no problem out there with respect to housing or the need for it.

Well, that is not what we hear and what we see when we go to the various sections of the country. We visited your section a year ago, if you will remember. And we felt that the basic structural approach offered was brilliant, seminal, original; and that we should recognize that in our endeavors on a national legislature level. And we have. We have incorporated it into our version known as H.R. 1, Housing Act of 1985.

So you ought to know this. You ought to be aware of the fact that time only will tell us whether we can overcome it or not.

I am distraught because I think that I am not a false witness. What I have seen demonstrates what every single responsible witness has testified to here. And to see this summarily dismissed as irrelevant hurts one. This testimony will be offered to every single member of the committee. I only wish we had more present; but every one of them will get a copy of your testimony.

I want to personally first thank you for what you have done, as you showed us a year ago; secondly, for accepting our invitation

and being here today; and thirdly, for making it possible for us to keep on trying to represent you and the needs we see clearly emerging from our society.

Thank you very much for your presence.

I will ask Mr. McKinney if he has any statement that he wishes to make at the outset.

Mr. McKINNEY. Well, Mr. Chairman, I have already made a statement during this prior press conference, but I would like to just add, my welcome to the church leaders. What you did in producing a \$7 million revolving construction fund with no interest for this project really is what Judeo-Christian philosophy is all about.

But you did something even more important than that, as far as I am concerned. When I was talking to Archbishop O'Connor, it came across. You forgot what the wording on the front of your church or synagogue was; you forgot what the symbol was. You got together to do what Judeo-Christian philosophy said we are to do: help one another.

I get carried away, Mr. Chairman, because I went the other night to see a bunch of kids do "Godspell," and there is a message there. I think that out of a part of New York City where I used to live, that New Yorkers tend to see, it seems hopeless. It is the religious leaders and their enthusiasm—and, I must say, their money—that said, uhuh, we are not hopeless.

There is an old expression about rising out of the dust, and that is exactly what these gentlemen and many others like them did in Brooklyn. And I welcome them. And I really honor them.

It does much more. I have always wondered what a gold chalice does. It holds wine. The use of the church's money to hold people is what the Nehemiah project is all about.

Thank you very much.

Chairman GONZALEZ. Mr. Mitchell?

Mr. MITCHELL. Just welcome again.

Chairman GONZALEZ. Mr. Schumer.

Mr. SCHUMER. Ditto.

Chairman GONZALEZ. Does any member of the panel have a time problem? We will recognize you first, if you do.

If not, if you don't mind and there is no objection, we will recognize the Rev. Johnny Ray Youngblood first, from East Brooklyn Churches.

STATEMENT OF REV. JOHNNY RAY YOUNGBLOOD, EAST BROOKLYN CHURCHES

Reverend YOUNGBLOOD. Mr. Chairman and members of the subcommittee, we are delighted to be here, and thank you for inviting us.

There is a great deal of talk about the climate of these times, and the questions are being raised: How can we come and present what we have in the light of this climate? Well, we want you to know that we feel that we indeed, to some extent, have the silver lining behind the dark cloud. As churchmen, we want you to know that there is a spiritual impetus to all of this. And I would like to share with you the things that help to pull the people together to

cause the politas of which Mr. Schumer spoke that was first mentioned by Aristotle.

I want to do a reading from the Old Testament, Book of Nehemiah, chapter 1:

The words of Nehemiah, the son of Hachaliah. And it came to pass in the month Chisleu, in the twentieth year, as I was in Shushan the palace.

That Hanani, one of my brethren, came, he and certain men of Judah; and I asked them concerning the Jews that had escaped, which were left of the captivity, and concerning Jerusalem.

And they said unto me, The remnant that are left of the captivity there in the province are in great affliction and reproach: the wall of Jerusalem also is broken down, and the gates thereof are burned with fire.

And it came to pass, when I heard these words, that I sat down and wept, and mourned certain days, and fasted, and prayed before the God of heaven.

Chapter 2, verse 17:

Then said I unto them, Ye see the distress that we are in, how Jerusalem lieth waste, and the gates thereof are burned with fire: come, and let us build up the wall of Jerusalem, that we be no more a reproach.

Then I told them of the hand of my God which was good upon me; as also the king's words that he had spoken unto me. And they said, Let us rise up and build. So they strengthened their hands for this good work.

But when Sanballat the Horonite, and Tobiah the servant, the Ammonite, and Geshem the Arabian, heard it, they laughed us to scorn, and despised us, and said, What is this thing that ye do? will ye rebel against the king?

Then answered I them, and said unto them, The God of heaven, he will prosper us; therefore we his servants will arise and build: but he have no portion, nor right, nor memorial, in Jerusalem.

Fourth chapter:

But it came to pass, that when Sanballat heard that we builded the wall, he was wroth, and took great indignation, and mocked the Jews.

And he spake before his brethren and the army of Samaria, and said, What do these feeble Jews? will they fortify themselves? will they sacrifice? will they make an end in a day? will they revive the stones out of the heaps of the rubbish which are burned?

Now, Tobiah the Ammonite was by him, and he said, Even that which they build, if a fox go up, he shall even break down their stone wall.

Hear, O our God; for we are despised: and turn their reproach upon their own head, and give them for a prey in the land of captivity:

And cover not their iniquity, and let not their sin be blotted out from before thee: for they have provoked thee to anger before the builders.

So built we the wall; and all the wall was joined together unto the half thereof: for the people had a mind to work.

Chapter 6, verse 15:

So the wall was finished in the twenty and fifth day of the month Elul, in fifty and two days.

And it came to pass, that when all our enemies heard thereof, and all the heathen that were about us saw these things, they were much cast down in their own eyes: for they perceived that this work was wrought of our God.

Mr. Chairman, members of the subcommittee, these scriptures serve as the incubating forces for the enthusiasm that the people of these devastated areas have to come together to rebuild our own communities. We indeed believe that the Nehemiah plan is the silver lining behind the dark cloud. And we know that just as it begun in Brooklyn, that it is not bound to Brooklyn. The Nehemiah plan originally from the scriptures was most pertinent to the rebuilding of a central city Jerusalem and certainly the central cities of our Nation ought to be rebuilt.

Chairman GONZALEZ. Thank you very much, reverend. We next recognize Bishop Adams.

**STATEMENT OF BISHOP JOHN ADAMS, A.M.E. CHURCH,
WASHINGTON, DC**

Bishop ADAMS. Mr. Chairman, members of the subcommittee, I thank you very much for the very encouraging expressions I have heard already today and for this opportunity to lay my witness beside Reverend Youngblood's and yours on behalf of the Nehemiah Act, which is under consideration. I wanted to indicate that I hope that that part of the scripture which Reverend Youngblood read which alludes to the fact that the enemies of the people were very sad when the wall was rebuilt will also be very sad when this bill is passed and this project can be nationalized across the country.

Mr. Chairman, there are two very exciting models which I simply want to lift up as a part of the Nehemiah plan. The first, of course, is the model which has been described which makes decent, affordable housing available to the ordinary income people of this Nation who are now practically excluded from the housing market. And through this combination of participants, church, government, builder, suppliers, all of the participants in the Nehemiah plan, converging around this great biblical concept of rebuilding the cities, constitutes a model which I think is the best one available in our Nation to try to rebuild the cities of the Nation.

The second model which I want to lift up, Mr. Chairman, is the model of private business, whether that private business in this instance are being led by church leadership and church resources, pioneering and doing the business. I think that has been the way in which the great ideas of this country have been afforded. I think this is the course of education, national policy in our country. I think this is the source of healthy care, as national policy in our country. It has always emanated out of the moral and ethical values of the church and offered first by enlightened and inspired church leadership.

One of the tragedies of the past is that once a good idea became public, we let the government take it over. One of the unique features of the Nehemiah Opportunity Act is that we intend to remain at the point in this legislation, if it is enacted as proposed, that the private leadership of the church and the builders and the suppliers, but especially the leadership of the church would continue to offer the decisionmaking and policymaking part of this program, which gives it a unique aspect.

I think that is a suggestion to remind our Republican brothers and sisters who have an affection for less Government that we are offering them a spectacular opportunity to get better and cheaper housing with less and less Government, if I may make that little political addenda to my religious testimony.

Second, Mr. Chairman, I wanted, in addition, to point to what I think will be the real value of enactment of this legislation. Dr. Gunner Myrdal, the late scholar who did the "American Dilemma," listed up two concepts applicable to this situation. The first was society crushes people through poverty. Poverty to housing, bad education, bad communities, crime and total deterioration of an area.

He described that concept in the "American Dilemma" with particular racial implications as the vicious circle. And many, many people of all ethnic groups who are trapped in our big cities are victims of society's vicious circle. Dr. Myrdal also lifted up a second concept which I think the Nehemiah plan latches on to and turns on. That is the concept of cumulative causation.

He says if you improve housing, you begin to improve neighborhoods. You begin to improve employability. You begin to improve attitude. You begin to improve community. One of the reasons that I came to make as strong a witness as I could on behalf of the Nehemiah Opportunity Act, Mr. Chairman, was because I think the inner cities and urban communities of America desperately need the process called cumulative causation where the spiral is taking people upward rather than downward, needs desperately to be turned on.

I have not seen in all my work in the country and in various cities a more exciting opportunity to turn that process on than this biblically based Nehemiah plan which offers the United States at this time to deal initially with housing and community development. But I think the cumulative positive effects of what the Nehemiah plan will do will be one of the possible resolutions if the Congress is wise enough to enact this legislation, so that this program can be done sufficiently widespread that it can have the impact that it possibly has.

Thank you very much, sir.

Chairman GONZALEZ. Thank you, Bishop.

Our third witness is Dr. Edward Wescott, and we thank you for being with us.

STATEMENT OF REV. EDWARD WESCOTT, INTERNATIONAL MISSIONS DIRECTOR, MISSOURI SYNOD LUTHERAN CHURCH

Reverend WESCOTT. Thank you for being with us, Mr. Chairman, and members of the subcommittee. Part of the problem of being the last speaker in a series of preachers is that everything has been said. Those who know me like to talk. At any rate, I really appreciate the fine words spoken by Congressmen Schumer and McKinney. I really didn't expect this bill to arrive at this point so fast—so quickly. I am delighted and want to say that from what I have heard already this morning, it would seem to me, Mr. Chairman, the bill stands a very good chance.

Let me just address one other side of this. When I was asked to come to New York to listen to this proposal, to listen to I.D. Robbins and those who were involved, as a member of the Lutheran Church, Missouri synod with headquarters in St. Louis with a constituency made up primarily of Midwesterners, I had a problem.

But the problem was solved very easily because I saw immediately beyond New York. I saw all the center core cities of this country where all of you have churches and where my denomination has many times big knowledges that are standing empty surrounded by no people. I have been involved in attempting to find ways to restore core or central cities since 1960. We have spent, as a denomination, millions of dollars in studies, in pilots, in programs, all of which end up pretty much zero.

And I listened with astonishment to one of the simplest plans I have ever heard. There isn't anything complex about bringing people back; rebuilding a community, offering them away in which they can produce a stable beautiful life. That is by giving them homes they can afford, single-family homes, not the multirise apartments that we have spent millions and millions of dollars on that have failed. I saw this as an end, to denominations like mine who are spending amounts of money subsidizing churches to keep them open because the constituency is so few, or be forced to close them.

And yet there are people there, people to be reached, who needed to make a change. That change now has come through what I believe to be the most innovative, the most creative, the most unique of all housing plans ever to come down the pike. I really thank the two Congressmen for the way in which they wrote it because I also had the reservation that the Federal Government get in it.

In fact, I said it last night before I saw the bill itself. I have some problems. I think we might lose. But I love the way we have done it. And if we can monitor it and keep it that way, I believe we have got a program and an answer that will provide the coming true of a dream for hundreds of thousands of people in this county. The Lutheran Church Missouri synod is happy it was able to provide \$1 million to get it off the ground in New York City because we see it happening in hundreds and hundreds of cities across the country. Thank you very much. [Applause.]

Chairman GONZALEZ. Thank you very much.

Do you have any questions? Mr. Schumer?

Mr. SCHUMER. Just first a comment. I thank Dr. Wescott, Reverend Youngblood and Bishop Adams for each in their own way underscoring the importance of this plan. Certainly Congressman McKinney and I thank them for their kind words. I simply would like to give some credit where credit is due. I would say that the people who came up with the idea of the plan, and that is probably why it is a good plan, do not come from this side of the witness table, but from that side of the witness table.

We are trying to provide, as that chart shows over there, the Nehemiah plan financing capital grant, the ability for church groups and other private groups to rebuild their own inner-city areas. The second point is when somebody has an idea, it is easy to put a bill together, but you need an advocate. And the chairman of our subcommittee, Henry Gonzalez, has, in these 5 dark years for housing, really been our beacon of hope because Chairman Gonzalez has never given up the fight. He has been alone most of the time, and he keeps going at it and going at it.

When I brought up the National Nehemiah Opportunity Act, first when he was willing to let the subcommittee come to Brooklyn and see what was going on, he was impressed. And when I brought him the act, he said we have to put it in H.R. 1, the housing bill. So, I just think all of the audience, as well as the witnesses, ought to know of the invaluable role Chairman Gonzalez has played in making Nehemiah so much closer to reality, in making it possible that we are all here today to try and spread t good word.

And I thank all the gentlemen for coming. Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you very much. I really deeply appreciate what you have said. Some of you we have heard before and, of course have been inspired by it. But the thing that troubles me is your apparent reference to the Federal Government's presence in programs unrepresentative of what Americans really want. You know if we look at it that way, gentlemen, we are not going to have a doggone thing, because this is the basic rationale of the very people that are dismantling every single available program that the Federal Government can provide collectively. The Federal Government is not a foreign entity. It is ours.

If we stop looking upon it as ours, well then there is no use trying anything. There is no use having H.R. 1. I just feel a little active on that score. I know you don't mean it that way, but we have to watch that rhetoric in my opinion. So, I needed to say that.

Bishop ADAMS. May I, Mr. Chairman?

Chairman GONZALEZ. Absolutely.

Bishop ADAMS. I made some allusions in that direction. I did not intend to indicate what you said. I agree with you that the government is my government, and it ought to be my enabler. I think that ought to be the right of the poorest and most powerless person in this country to say that this is my government. This is my enabler. And it is the priorities of this government that is hurting us. I would not want you to consider any of us to consider the government other than our government.

What we want to do is find a creative way to use it.

Chairman GONZALEZ. Bishop, I should have been a little bit more careful in my rhetoric. I think maybe it was not perhaps so much you as maybe the way I interpreted Dr. Wescott's reference. It seemed to imply a disapproval of programs for those that are deemed not to have succeeded in our society.

It was this kind of thrust that enabled the President to talk about getting the Government off our backs. Then we end up having to fight against the most elemental efforts that have been made after much debate and struggle over 40 years to try to reflect a response to the needs.

Even the favorable members on the minority side, and some on the majority side, who might be favorable to Nehemiah will tell you that H.R. 1 does not have a chance of passage because what you are trying to do here? I think that we can't allow ourselves to get sucked in that way. We have the duty of saying just a minute.

We agree with you. We do not want the Federal Government, or any other level of Government, to be wasteful or improperly using its resources, which all emanate from the people's taxes. But wherein is the waste? Wherein is the danger? Where is the dangerous level at which that Federal Government becomes undesirable?

We have to be specific that way, because otherwise, we are going to get lost selectively. We are going to be vividly losing the battles that only through a union can be won. I do not have to tell you all this—you work among the people. Those that need the union the most, say labor unions, are the most difficult to try to organize.

In less than 10 years time we will see such things as food riots, rent strikes, and the squatters fights in our country. In the future

nobody is going to come back here and say, here, Mr. Secretary, but you said that there was no such thing as a problem; that there was ample housing available, and that this is the reason you wanted a moratorium for 2 years.

That is the only reason I am sensitive about it. I hate to have taken up this much time. I don't want to misinterpret your statement, but I do caution you because I am extra sensitive at this point because we haven't really been winning the battles that I believe are going to cost us very much in social disorder. Thank you.

Mr. BARTLETT. Some of us may have questions.

Chairman GONZALEZ. I'm sorry. I thought the indication had been that I had asked everybody including Mr. Bartlett from Texas.

Mr. BARTLETT. Thank you, Mr. Chairman. I have to say I am quite impressed with the Nehemiah Program as you have presented it. It has had some obvious success in assisting low-income families and low-income people. I have seen similar projects, although this seems to be one of the better ones in terms of actually delivering what it promises. So I am quite impressed by both your results and the way you have approached it.

You seem to have approached it with a good deal of common sense in just sitting down to see what will work. You approached it with something we in the Federal Government forget I think quite a bit, or at least I hear up on Capitol Hill often. That is you approach it with that commitment to try to provide a large measure of homeownership opportunity. You have allowed low income people to own their home and cut through the redtape and make sure they do that.

Sometimes we sit on this committee and I hear often erroneously that those families either can't or shouldn't be allowed to own their homes, that Government housing is the way. I think you have disapproved that very well. It is also locally community designed, implemented and managed, by the people involved directly, not some sort of agency on high.

I did listen to your testimony carefully. I do think much of what you say is accurate and correct and needs to be said. I am not trying to put words in your mouths, but often times Federal Government programs themselves do help people. But oftentimes they get in the way of helping people. And the Government programs themselves become the problem. I realize that is an overstatement, but we see it quite often. I have heard what you have said from low-income families, tenants and homeowners in Dallas, TX, and from some of the worse poverty areas we have. They ask for that opportunity to buy that home and the opportunity to live in it with code enforcement and to live in a crime free neighborhood.

And I think that is the approach that you are taking. Oftentimes housing owned and operated by the government is the least compassionate solution. Can you describe for us both the assistance and impediments that you received from both the city of New York and from the Federal Government. As you developed the program, what hurdles did you have to overcome both by the Federal Government and the city, and what assistance did you receive from both?

Reverend WESCOTT. Mr. Congressman, Mr. Chairman, I believe that that answer would come better from someone who will be testifying later who has been intimately involved in that question.

Mr. BARTLETT. Let me ask you, then, do any of the three of you have any concern that if a Federal program is badly constructed, it could end up smothering the creativity of this program? Federal programs have a way of becoming awfully bureaucratized with rules and regulations from Washington that did not exist before.

Do you have any concerns about that or advice as to how we can avoid that?

Reverend YOUNGBLOOD. In terms of the Nehemiah plan? If you read the bill correctly and if it is passed as it is, we won't have that problem.

Mr. BARTLETT. So, the way the bill is worded, you think that won't happen.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you.

Our next panel labeled Nehemiah homeowners are Mr. and Mrs. Angel Torres, Ms. Carmella Goffe, and Ms. Alice McCollum.

If there are no objections, we will recognize Mr. and Mrs. Torres first.

STATEMENT OF ANGEL TORRES, NEHEMIAH HOMEOWNER, BROOKLYN, NY

Mr. TORRES. My name is Angel Torres and this is my wife, Josephine. I have my three children with me. We live at 426 Christopher Avenue in the heart of Brooklyn. We are members of the East Brooklyn Church, and we are one of the pioneer families living in the Nehemiah homes over there. You see my house over there.

We are Hispanic. Most of us are workers of medium income. We always have a dream to own our own house, but it looks so difficult. It looks like only it was a beautiful dream, but never going to get that house.

STATEMENT OF JOSEPHINE TORRES, NEHEMIAH HOMEOWNER, BROOKLYN, NY

Mrs. TORRES. We used to live in a large crowded apartment building. We had so many problems over there. Our children did not have a safe place to play. One time my husband was assaulted. He almost got killed coming home from work. Because we don't have no parking space near our building, I used to walk. One night, three youths assault him. My daughter felt like an animal in a cage. She didn't have no friends to play with. We felt very frustrated.

We tried to move many, many times, but we can't afford to pay the rent. They were too high, \$1,000 for three bedrooms. I told my husband we have to remain here. There is no other choice.

Mr. TORRES. I remember that I was looking for a house to rent another place so many times I was seeing in the newspapers. I went to different places. Finally, one day I find a place, looks like good neighborhood to rent an apartment. And I said to myself, "Thank God, I find a new place to move from that building."

I went inside. I liked the apartment. My wife meantime was waiting for me outside in the car on the street. So, I told the people over there, "Okay, we are going to rent this apartment. I love it." I was so happy. So, as soon as my wife came in and they saw her, I saw the face of the people changing. And they told me I am sorry, Mr. Torres, but we forgot to tell you that the apartment was rented.

But the only reason was because they looked at the color of the skin on my wife. That changed it all. So, this leave me frozen. I was so—I can't tell you how I felt at the moment, so I got home and took my wife and said, "Let's go to another place." I didn't say anything at all.

Mrs. TORRES. Finally, one day a friend of mine call me and say do you heard about the Nehemiah plan? I said, yes, we read them in the newspaper, but I think that plan is also going to fail like the others. And she say, no, a lot of good people are involved, and this is going to be a success.

Then as soon as my husband got home from work, I say to him, do you want to apply? I said, oh, yes, this is our opportunity. Then we went to see the place where neighborhood like Hiroshima after the bombing. I say, oh, no, I remain where I am because I am not moving to this place. I not raise my children over here. This is horrible.

And my husband say I do have faith in this plan, and we going to go right ahead.

Mr. TORRES. I was fighting with myself, and say, my goodness, I am going to live in this place over here. But I have faith in the plan. I have faith in the people that were planning to do this amount, and I said this is going to change. This is going to be a new place, beautiful place to live. So we move in.

We were one of the pioneers living over there. And we are very proud to be living in Brownsville now. Before I was ashamed, are you going to Brownsville. I remember telling my friends, where you going to move? I told them, I was afraid to tell them going to move to Brownsville. I said I am going to live in the back of the airport.

Now, I can tell everybody I am proud to be living in Brownsville. I am proud to be living in Brooklyn, NY.

Mrs. TORRES. Today, I feel so happy with my own house seeing my children playing in their own backyard; my husband coming home from work parking his car in the driveway. I feel like a new person. Even if I win the New York lottery, I do not sell my house. [Applause.]

Chairman GONZALEZ. Thank you.

We next will hear from Ms. Goffe.

STATEMENT OF CARMELLA GOFFE, NEHEMIAH HOMEOWNER, BROWNSVILLE, NY

Ms. GOFFE. Yes, I am here with my three children, Armel, Peter, and Joseph. I grew up just a few blocks away from where the Nehemiah Home plan site is in Brooklyn. I attend school in Brownsville and it was always important to me to get a good education, to find a good job and to succeed. I worked for the New York City Transit Authority as a conductor.

When it became apparent, I said I wanted something more for my children than I had for myself. It was not easy to come home and wonder, can you make it upstairs to your apartment door safely or whether after school the kids were able to get home and get past drug addicts who were hanging out in the lobbies of our apartment building.

I wanted a better environment for the boys and myself, but apartments were too hard to come by. They were so expensive, 600 and up everywhere you looked. Before there was even an Armel, Peter, or Joseph, I had read an article in the New York Sunday News. The article was about a builder's plan to build affordable housing. I said this is the American dream, my dream. I wanted that. I said maybe some day this could happen to me.

In 1981, East Brooklyn Churches was formed and after about 1 year, the organization came up with a Nehemiah plan. And the builder would be I.D. Robbins. Something clicked in the back of my mind, and I said that article I read. I had torn it out of the newspaper and went back and found that article. And I looked at it and it was I.D. Robbins who was the author of that article.

I said, lo and behold, my goodness, this could be it for me. This could be it for me and my family. The American dream. Three months ago, me and my sons, we moved into a Nehemiah plan home. We are totally pleased. My mind is at ease. I know the boys don't have to come home and walk up dark stairwells. I know that when I go to work in the wee hours of the morning, I don't have to be afraid anymore. And I am just so glad.

The boys, they love the neighborhood. We are now in a community that is close knit, growing, alive, and striving. My American dream came through because of the Nehemiah plan, and I would love to see that happen for other people in the whole USA.

[Applause.]

Chairman GONZALEZ. Our next witness is Ms. Alice McCollum.

**STATEMENT OF ALICE MCCOLLUM, NEHEMIAH HOMEOWNER,
BROWNSVILLE, NY**

Ms. McCOLLUM. Mr. Chairman and members of the subcommittee, my name is Alice McCollum and I am a member of the Southern Baptist Church in Brownsville. I am the mother of nine children, and I raised them all right there in Brownsville. My baby boy, which is 21 years old—his birthday was yesterday—and my oldest daughter, which is 32 years old today, and I am a proud mother of my nine children. And they have made me very proud of them.

In the midst of a ghetto, we have seen it go down to almost nothing. I always taught them the value of having a job and visions. I also told them no matter what the circumstances around you may look like, don't ever let go of your vision and dream. We had a vision and dreams of owning a home, but as time went by, on the salary that was coming in our home, it seemed impossible.

All around us things was beginning to decay. Buildings was decaying, and I have seen programs come up and I have seen them die down. Nothing every materialized. Yet still I tell them, don't let go of your dream. And then as they began to graduate from

high school and began to get out on their own and get jobs, they said, "Mama, we will never own a home on our salary." I said, "Honey, don't let go your dream."

All around us was just like—our place around us was just like as Ezekiel said in the 37th chapter of Ezekiel. Our place began to look like a valley of dry bones. And that is the way most of the people in the area were beginning to feel like, a bunch of dry bones. So the churches being the only viable organization left there, they began to have a dream also and wondered could these dry bones live again.

All our church leaders got together, our preachers, the Rev. Johnny Ray Youngblood, the Father Hinchey, and all the Cross Ecumenical pastors began to get together and said, "What can we do about our area?" They said something is lacking here, and we need to revitalize our area. What can we do? And they realized that we need help. What kind of help do we need? We need someone to organize us because we have tried so many times our way, and we have failed.

So they recognized the need. As long as you recognize you have a need for something, you can rally to the point. So they recognized the need to have an organization, to be organized. So they called, they got together, the pastors got together and called the industrial areas foundation, which trained our pastors and a lot of lay leaders to organize themselves. What we needed was someone to speak English to the English-speaking, and—dry bones, and we needed someone to speak Spanish to the Hispanic dry bones. And we recognized that need.

So the Reverend Youngblood began to preach to the dry bones and the Father Hinchey began to preach to dry bones. Say get up. We have a vision. We going to live again. And we began to talk back. You mean we can get up out of this run? We can make something out of nothing? We got a dream. We can live again. And out of that dream came the Nehemiah plan.

I told my daughters—she said so—"Mama, if this is what happens, we can own a home again." She is home and she is working. My oldest daughter, the first to buy a home there, she is one of the first ones going in for the homes. And she is there today enjoying her home. I have three more kinds in line, and I am telling you I want all nine of them to get one. And not only them, but all the rest of the people there.

When I saw this, this picture failed to tell the true story. We have a suburb in Brownsville. That is what we have now. And Mr. I.D. Robbins, oh, a great man to help us get this off the ground. We began to go to the people we know we needed help from. They began to say, you know, I think these people, you know, I don't think these people got it all up here. But we still had our vision up there.

That is what we had there, and we began to talk to people around us and let them know what we need, and they say, well, maybe this plan will work. And it has.

And I thank God for it today. I don't feel no way negative. I feel positive all the way about the bill and everything because prayer can change anything, and we are praying. We are a praying people. We have visions, and we speak positive things.

The Bible tells, us you have what you say, so I say we have a whole lot. We have a lot of homes coming up, and I believe it. I believe it. I believe it is a good bill, and I believe it is going to work. It can work, and those of us who pray, we are going to pray while you are up here on the Hill doing the work for us. And I have no doubt about that. We recognize them as old friends. Now, we recognize Mr. Bartlett.

Where did he go? I saw him there a few minutes ago. We recognize him as a new friend. And God bless you all.

[Applause.]

MR. MITCHELL. Mr. Chairman, I do have a question, but before putting my question, I would like to say this is one of the nicer hearings for me. You and I have seen the room packed, but it is almost as if the people are not alive. You are very much alive.

[Applause.]

I want to ask all three of the witnesses what they were paying in rent in their last place of residence? How many rooms were in that rented unit, and what are they paying now in terms of their monthly mortgage.

MS. MCCOLLUM. My daughter had a two-bedroom apartment, and she was paying \$528 for a place that was not fit to live in. Now she pays \$362 for her mortgage.

MR. MITCHELL. Mr. Torres, or Mrs. Torres?

MR. TORRES. We were living in a small apartment, and we were paying \$450, and we are paying \$350.

MR. MITCHELL. How many rooms were in your apartment?

MR. TORRES. Four rooms only.

MR. MITCHELL. And now you have?

MR. TORRES. Complete basement, first floor and second floor with three bedrooms.

MS. GOFFE. I lived in a two-bedroom apartment subsidized paying \$331 for rent. Now I pay \$35 for a mortgage.

MR. MITCHELL. Fine; thank you very much.

CHAIRMAN GONZALEZ. Mr. Schumer.

MR. SCHUMER. I just had a similar question to the witness. The down payment of \$5,000, did you find that difficult to come by? Did you save a long time before hand, et cetera. Tell us a little about that.

MR. TORRES. For ourself, it was a little difficult in the beginning because when they told us this plan was going to start, we thought, like all the plans, it is going to take years. I said I didn't care to have the money together. So when they call me all of a sudden, it is a few months. I had the money, but in different places, I had to put it together.

It was so quick, the plan was growing, that was the only reason we had the money.

MS. MCCOLLUM. Well, when they started talking about building the homes and what they would cost, like \$5,000 downpayment, you know, and she said, "Boy, you know, that is OK." I can't believe this. And she said I have a little money. I have about \$2,000 right now in the bank. By moving in with her sister, she had moved in with her sister by then. She said I have about \$2,000. I said, "You let the first one hundred in first. By the time they get in the house, we will have the rest of the money."

Ms. GOFFE. I began to save the money up, and my family helped me by giving me gifts.

Mr. SCHUMER. Thank you, Mr. Chairman.

Chairman GONZALEZ. Mr. Bartlett.

Mr. MITCHELL. Mrs. McCollum, I understand you said some nice words about me.

Ms. MCCOLLUM. I missed you, Mr. Bartlett.

Mr. MITCHELL. I apologize. I was trying to return one of the 45 telephone calls I received this morning. I really appreciate your testimony. You all have said some things, as I said earlier, that I had heard in the Dallas area, where people at all income levels are crying out for that opportunity to buy a home. And you have articulated that very well.

If you were sitting in our shoes with dollars to spend on public housing or on programs to give families a chance to buy their homes, which would you choose: More public housing and rent assistance or homeownership opportunities, such as Nehemiah?

Ms. MCCOLLUM. That would be no hard question for me to ask. We don't need any more public housing. We need more homeownership. That is how the neighborhood began to be stabilized. That is—sitting where you sit, I see my name up there. Maybe I was supposed to be there—

Mr. MITCHELL. Ms. McCollum, I would like to have you here, given what you are saying.

Ms. MCCOLLUM. I definitely look at the homeownership because that is where it is at.

Mr. MITCHELL. Mr. Torres, Mrs. Goffe, do you agree?

Mr. TORRES. Yes, without any doubt I have to say, yes. It is a lot of difference. I explained before how we were living, the condition we were living in before, and now living—having our own house, that is so different. We feel so happy. Our kids can play. We have friends. All the people together in the community, it is a lot better.

Ms. GOFFE. I agree totally. From what I see of the plan it would benefit both the public housing and the homeownership because it is going to free up some of that public housing so people who can get out there, you will have apartments free so other can move in.

Mr. MITCHELL. Mr. Chairman, I would like to make one other comment.

Chairman GONZALEZ. Absolutely.

Mr. MITCHELL. I was very interested in your responses. I am totally supportive of the Nehemiah plan. I am totally supportive of the idea of homeownership, but I will never forget that there are people who will need public housing at least until this program has been expanded to a national level. I just want to remind the chairman that I have often spoken about a public housing unit in my city.

One of the oldest public housing units, it is still beautifully kept, beautifully maintained. It is not a highrise, because I hate them. These are two units, and people have a sense that it is their home; this is mine where my family can live. And it shows that in the oldest public housing units, which are well kept, that a sense of family and community thrived there.

The problem with public housing surfaced when we got too to build individual houses and started to build those highr

were just cages for human beings. So I want to stress my perspective, and that is while I am totally supportive of homeownership and will fight for the Nehemiah plan, I am mindful of the fact that we are going to need public housing for a long, long time, decent, safe, affordable sanitary public housing.

Mr. SCHUMER. Would the gentleman yield?

Mr. MITCHELL. I would be delighted to yield.

Mr. SCHUMER. I come at Mr. Bartlett's from a different perspective, although I certainly agree with my good colleague from Michigan—I mean from Maryland. But just to share with you what the chairman was talking about yesterday, here we are and you, Mr. Bartlett, have been good enough to sit here and listen to these hearings. And I am sure moved by them as anyone who sits in this room must be. Yet, yesterday when we had the Secretary of HUD here, and this is what the chairman was talking about yesterday, he doesn't want to see any alternatives.

What we tried to do with the HoDAG Program last year, and with Nehemiah, was to say, look, we have different philosophies. There is no doubt about that, but there are certain programs such as Nehemiah—that chart tells the whole story. They say you can build one new unit of public housing or seven Nehemiah homes which in turn free up three units of public housing.

The total amount of subsidy here is \$15,000 which is much cheaper than anything we have been able to do for a permanent home that is owned, and it is a second mortgage which will come back. Yet, we can't seem to get the folks at OMB, the folks at HUD to—they will acknowledge that there is a problem, but they won't help us explore new ways such as they Nehemiah has done here.

That is the frustration the Chairman Gonzalez was speaking of and the frustration that I am speaking of. And I am really appreciative of your sitting through this testimony and listening to it and bringing what of course is a different political perspective on it than I have or Perin has.

Mr. MITCHELL. If the gentleman will yield, we may share much more in common in terms of homeownership opportunities for low income families than you might imagine. It is easy to sit here and expound upon my agreements and disagreements with the administration. But if this committee continues to allow itself to simply fall into the trap of talking about what is wrong with somebody in another branch of government without taking actions, we will not increase homeownership opportunities. We can't, nor should we close down public housing tomorrow, but the failure of the Federal Government in terms of low-income families has not been a failure because of the lack of construction of public housing.

We had our Pruitt-Igoe and others. It has been a failure to provide families that opportunity to buy housing at all income levels. That is what the Nehemiah proposal is trying to do. I look forward to working with the gentleman.

Mr. SCHUMER. That is great.

Mr. MITCHELL. From the legislative perspective, you and I must do what we ought to do to provide those alternatives for homeownership at all income levels.

Mr. SCHUMER. That is what we are trying to do today, and I appreciate your comments.

Chairman GONZALEZ. I thank both my colleagues, Mr. Mitchell and Mr. Schumer, for clarifying their remarks, because I think the thing I resent most was the way Mr. Bartlett posed the question. It was like asking if your mother-in-law and your mother were drowning, which one would you save? That isn't the issue. The issue isn't that simple, Mr. Bartlett.

It isn't a question of whether we are going to choose between appropriation for public housing or for home ownership, and you know it. So I think that ought to be clarified. Naturally, anybody would answer—anybody would say I would rather own a home than rent. If I could live in a private dwelling rather than public housing—of course. But that is not the issue.

The issue is very different, and I am glad you clarified it, gentlemen. Well, thank you very much.

Mr. TORRES. Thank you.

Chairman GONZALEZ. We will see you again.

Our next panel consists of our very distinguished colleague who was also with us in our New York subcommittee field hearing. We were touching borders of his district. We were actually in Mr. Schumer's district, East Brooklyn. The next panel includes Congressman Owens from New York, the very distinguished Mr. I.D. Robbins, general manager of the Nehemiah with whom we visited, Mr. Mike Gecan, national staff industrial areas foundation, the Honorable Anthony Gleidman, tremendous public servant, Commissioner of New York City of Department of Housing Preservation and Development, and our very distinguished friend, long time standing, Mr. Winston Martin, executive director, San Antonio Development Agency, whom I will introduce a little bit more specifically subsequently.

We recognize the Congressman at this time.

STATEMENT OF HON. MAJOR R. OWENS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. OWENS. Thank you, Mr. Chairman. I have already thanked this Committee, the distinguished members of the subcommittee for recognizing the value of the Nehemiah plan. We have a treasure here, a perfect pilot project, and it is to the credit of this Committee that they have the good sense to recognize that.

I also want to say that I am honored to have been included, requested by the East Brooklyn churches to join them on this side of the table in offering testimony in support of this legislation. The Nehemiah plan for the construction of 5,000 homes represents one of the brightest rays of hope for the rebirth of our cities that can be found anywhere in America. These homes are being constructed in the poorest section of my congressional district, whereas many of them will be located in the 11th Congressional District, adjacent to mine—all of the homes presently under construction and that have been constructed are located in the 12th Congressional District.

This district unfortunately ranks as the seventh poorest congressional district in America. The adjacent district, the 11th, is the fourth poorest in America. Since this pilot program for low-cost housing is working in this impoverished setting, it is obvious that it

will work anywhere in the country. I congratulate you on this hearing and your willingness to consider ways in which to bring these same benefits to a larger national constituency of the homeless.

The environment is one of urban poverty, but there is no poverty of spirit among the people who have made a small village of new homes literally rise from the rubble in the Brownsville and east New York section of New York City. In an area of the city which was long ago written off by the banks and the real estate developers, the east Brooklyn churches have created an oasis of community development. Not only has housing been given new life, but the schools, the community centers, the job training projects, the parks, the transportation system and the possibilities for economic development are all in bloom as a result of this fundamental forward step to meet this basic need for shelter.

I have no doubt that today you will hear, and you have heard already, very detailed expert and authentic testimony concerning the Nehemiah plan. I had the good fortune to be invited by these churches to spend several days with them in a training session, and I heard many of the stories behind the stories. It was not by magic certainly and although they do pray a lot, it is not by prayer alone that they have come this far. It was by sweat, by trust, and by faith, and a lot of very sound thinking that they have come to this point.

Certainly the details of the interlocking grid of financing, construction, bureaucracy expediting, community development, and human engineering are not my primary concern, as others will address them. I merely want to emphatically state one basic position. The taxpayer dollars being spent in the Nehemiah approach to home building represent an optimum use of Government funds for housing. In the Nehemiah approach public dollars achieve maximum leverage and maximum impact. And beyond the immediate physical construction of shelter, the fact is that it is rebuilding an entire neighborhood. This method sets in motion a chain reaction of community development which guarantees that the shining new buildings of today will not become the slums of tomorrow.

Long-term protection is provided for both the public and the private investments. The Nehemiah strategy is both conservative and revolutionary. It is conservative because it spends the least amount of public dollars for each unit of housing. It is revolutionary because it exposes the inflated claims of the orthodox housing construction industry. We have been told for the last 10 or 15 years that you cannot construct housing at these costs; that you must spend the kinds of enormous sums that we hear in the alternative programs.

These startling figures, and I won't repeat them here because I think they will be mentioned by other people—the figures when you compare Nehemiah with the alternative plans, the figures are indeed startling. Without a doubt, the Nehemiah homes represent the best bargain possible for both the families as well as the American taxpayers.

Chairman GONZALEZ. Thank you very much. We appreciate your support, Congressman, as we told you in New York last year.

[Mr. Owens' prepared statement follows:]

STATEMENT OF CONGRESSMAN MAJOR OWENS
ON HR 1 - TITLE V WHICH EMBRACES
THE PRINCIPLES OF THE NEHEMIAH PLAN
March 14, 1985 - Before the
Housing and Community Development Sub-Committee
of the Banking, Finance and Urban Affairs Committee

Let me begin by thanking the distinguished members of the Housing and Community Development Sub-Committee of the Banking, Finance and Urban Affairs Committee. I particularly want to thank my Brooklyn colleague and neighbor, Congressman Chuck Schumer for his continuing efforts to provide housing at prices that families can afford and for his sponsorship of this legislation. I very much appreciate this opportunity to welcome my friends from Brownsville, Bushwick and East New York and to again pay tribute to the Herculean housing program which has been undertaken by the East Brooklyn Churches.

The Nehemiah Plan for the construction of five thousand homes represents one of the brightest rays of hope for the rebirth of our cities that can be found anywhere in America. These homes are being constructed in the poorest section of my congressional district - and my district, unfortunately, ranks as the seventh poorest congressional district in America. Since this pilot program for low-cost housing is working in this impoverished setting, it is obvious that it will work anywhere in the country. I congratulate you on this hearing and your willingness to consider ways in which to bring these same benefits to a larger national constituency of the homeless.

The environment is one of urban poverty, but there is no poverty of spirit among the people who have made a small village of new homes literally rise from the rubble in the Brownsville and East New York section of New York City. In an area of the city which was long ago written off by the banks and the real estate developers, the East Brooklyn Churches have created an oasis of community development. Not only has housing been given new life, but the schools, the community centers, the job training projects, the parks, the transportation system and the possibilities for economic development are all in bloom as a result of this fundamental forward step to meet this basic need for shelter.

I have no doubt that today you will hear very detailed expert and authentic testimony concerning the Nehemiah Plan, its considerable accomplishments to date, and its magnificent blueprint for the future. The details of the interlocking grid of financing, construction, bureaucracy expediting, community development and human engineering are not my primary concern in these introductory remarks. I merely want to emphatically state one basic position. The taxpayer dollars being spent in the Nehemiah approach to home building represent an optimum use of government funds for housing. In the Nehemiah approach public dollars achieve maximum leverage and maximum impact. And beyond the immediate physical construction of shelter, the Nehemiah method sets in motion a chain reaction of community development which guarantees that the shining new buildings of today will not become the slums of tomorrow. Long-term protection is provided for both the public and the private investments.

The Nehemiah strategy is both conservative and revolutionary. It is conservative because it spends the least amount of public dollars for each unit of housing. It is revolutionary because it exposes the inflated claims of the orthodox housing construction industry. Just a few startling figures tell the story and reinforce my argument. For the entire life of a Nehemiah home the proposed public subsidy will not be greater than fifteen thousand dollars. On the other hand, for the thirty year life of a Section 235 subsidy, the cost will be more than seventy-five thousand dollars; the cost for a Section 8 subsidy nearly a hundred thousand dollars; and the cost for a low-income housing unit will approach one hundred fifty thousand dollars.

Without a doubt the Nehemiah homes represent the best possible bargain for both the families who purchase them as well as the American taxpayers.

Chairman GONZALEZ. Our next witness will be I.D. Robbins, who is the general manager of the Nehemiah plan.

STATEMENT OF I.D. ROBBINS, GENERAL MANAGER, NEHEMIAH PLAN

Mr. ROBBINS. Mr. Chairman, members of the subcommittee, my name is I.D. Robbins. I am a builder and general manager of the Nehemiah Program. The program grew out of an analysis made of the housing problems of big cities, not New York alone, and wrote about it for the New York Daily News, the Wall Street Journal and other publications.

As a builder, I have produced large numbers of dwelling units in the thousands, and many major public works. Although I proposed the Nehemiah plan, lobbied for it, visited the Housing and Urban Development and discussed it with the cabinet secretary, I readily confess that this program would not have had a prayer had it not been for the churches.

They really put it over. It was their power, strength, and willingness to raise the funds, the construction money, free construction money, which formed the—gave me the assurance and gave everybody else—the contractor and subcontractors and everybody else, the feeling that this was not going to fail. That is exactly what you have written into the Nehemiah Fund Program in this bill.

You can see over on the right—I'm sorry, you will have an opportunity to see it, but before and after photographs, that will give you a pretty clear idea of what we are doing and what we think can be done in every city that has a housing problem or has land to build or rebuild on. What we did was to in fact take the worse possible areas of the city, not the best, but the worse, where the land had little or no value, where the streets were still there, where the schools were still there, where the sewers were there, but where the land had been devastated.

And there we found the possibility of rebuilding the city at the place where the facilities and services were already available at the lowest cost. In effect, what we did was to do in the big city what had been done in the suburbs by the Levitts and others in the postwar period, which I did, too.

I built a lot of those in the suburb, and what we are doing is demonstrating that this can be done within the big cities for the benefit of the people living there. I think the charts are very clear, and they tell the economic story. There is just one change I would like to call your attention to. I am grateful to Mr. McMurray, who mentioned it to me this morning, that the present cost of a public housing unit is a great deal more than \$70,000, maybe closer to \$120,000. On that basis, you could build 12 Nehemiah homes, and you could find 5 vacancies in public housing as a result. So we are in better figures even than we thought about when we first started this program.

In Brooklyn, we are doing something which runs counter to the conventional wisdom. Conventional wisdom was you could save old neighborhoods, rebuild, infill, refurbish, rehabilitate, whatever the words were. We recognized that new construction is not only infinitely cheaper than major rehabilitation, but it lasts several times

as long. You are getting a better house and a longer lasting house for your money.

And small programs are not only expensive, but they are subject to quick destruction in old neighborhoods. When you infill in an old neighborhood, it is dying anyway. That new construction is at risk the moment it is put up. Builders know this, by the way. It is only I hate to say it, reformers, public officials who have not yet accepted that fact, builders know that infilling is an uneconomic and unsound procedure.

Large-scale rebuilding programs can provide healthy new neighborhoods. You have to have a large enough neighborhood to give the kind of assurance to a stable family that they want to invest and live there. It has to be big enough to reassist bad influences. That is why in the bill you have wisely provided for fairly large programs in each place, or for 1 percent of the habitable dwelling in that city.

That means you are going to make a really serious contribution. It is not just going to be a few houses here and a few houses there. That won't work. And you know, it won't work, you have been through it. At a fair price, there is an almost unlimited market for single family owner-occupied houses. This market cannot be stopped if you give it the slightest chance.

I will give you an idea. We do not have any selling expense in Brooklyn. We keep our model home open only 4 hours a week. Every Saturday morning, from 9 to 1 when we open that model home there are 300 or 400 people waiting outside. Now you worry about where are they going to get the \$5,000. The fact of the matter is that there are about 1,900 people on the waiting list at the present time, all of whom have been checked out and all of whom have got the \$5,000 or more in some cases.

Now, we knew also that high prices were to a considerable extent an effect of small programs, but inadequately financed builders and the high cost of construction money. A small builder inadequately capitalized has got to make a large profit on a house or he can't afford to start this house. When you run large quantities by experienced people, you are able to reduce your construction costs sufficiently in addition to all the other forms of saving that you have in the program.

For example, by paying our contractors within 9 days, which would be possible, it is unheard of in this industry anywhere in the United States that contractors are paid within 9 days. We do that. That means, by doing that, we save them the cost of borrowing the money from the bank and getting hung up and not being able to meet their payments.

The next thing it does is it says to the contractor or supplier who is furnishing to us he is going to get paid in 9 days, and therefore he gives us a lower price. So in addition to getting a lower price by buying in quantity we get a lower price by paying expeditiously. Now actually—and this, I am sure, you know, there is no way, in fact the first piece I wrote that appeared in the State of New York banking magazine attracted—I see Mr. Cosellus is here today. It attracted Governor Cuomo's attention, and what we talked about was not the \$20,000 income family, but the \$40,000 income family.

There is literally no place in the United States today where a new home can be bought by a family with an income of only \$40,000. On Staten Island in New York, the same house building is selling for \$80,000 or \$90,000 while we were able to sell it for \$39,000. These are facts. There is a chart there that tells it very well.

If you have a conventional mortgage, conventional costs of all kinds, you end up with an \$840 monthly payment for interest and amortization. But if you start with our approach and they have got it at \$50,000, it could be \$51,000 or \$49,000 as it happens, and you end up with \$300 monthly payment. This is actually what happened, and you heard people testify to that. Their payments included their factors and other figures that went into that, into what they pay to the mortgagee. I will hurry along.

Some form of assistance is required, and in thinking about this over the years, I concluded that the no interest second mortgage was the cheapest form of subsidy. It has the additional benefit that the Government, if the Government makes the loan, gets the money back in a reasonable time. Let me show you what that means.

That means that if you in your bill have \$300 million up and get 30,000 houses out of it the first year, and you get \$300 million the next year, you get another 30,000 at the end of perhaps 5 years, the turnover will make that almost a self-sustaining program. This is exactly why this is one of the reasons why it is a conservative approach to what otherwise is a free-spending approach.

And I must tell you that that is the original thinking that I had on this at the time when we were—when I was trying to get other people to accept it; get the Government officials to accept it. Until we met the East Brooklyn churches, nobody took it seriously. Now, I am proud to say we have got the best people in the world.

[Applause.]

Mr. ROBBINS. Now one other thing—well, I think I have told the story. I really would like to answer any questions you have. What we have got, we are going to build 800 this summer and will probably put another thousand in next year. I brought some renderings. I don't have to make this house a row house. Depends on where it is. We are talking to people in other States about it. And they are committed to slab houses without basements, detached. No reason why it can't be built. These are economic analyses that have to be made in each situation.

We chose the form that was used in Brooklyn because the people were used to it and because that was the most economical form to be used there. Thank you very much. I will answer any questions.

[Mr. Robbins' prepared statement follows:]

PREPARED STATEMENT OF I. D. ROBBINS

My name is I. D. Robbins. I am the general manager of the Nehemiah program which grew out of an analysis I made of the housing problems of big cities and wrote about for the New York Daily News, the Wall Street Journal and other publications.

As a builder I have produced other large numbers of dwelling units and major public works. Although I proposed the Nehemiah Plan, I readily confess that it would not have had a prayer were it not for the support of the churches.

I show you before and after photographs to give you a clear picture of what we are doing and what can be done in every city that has a housing problem and has land to build or rebuild on.

In Brooklyn, we are doing something which runs counter to the conventional wisdom. We recognized that new construction is not only initially cheaper than major rehabilitation but lasts several times as long; that infilling and small programs are not only expensive but subject to quick destruction in old neighborhoods; that large scale rebuilding programs can provide healthy new neighborhoods which attract stable families and resist bad influence; and that at a fair price there is an almost unlimited market for single family, owner-occupied homes. We knew that high prices are to a considerable extent an effect of small programs by inadequately financed builders and the high cost of construction money; and that there was no way that the median income family could afford a new home anywhere in the United

States today. Some form of assistance was required and the cheapest form was the capital grant or no-interest second mortgage which costs only a fifth as much as Federal interest subsidies and an eighth as much as Federal rent subsidies.

Furthermore, 235 or Section 8 money was spent and gone while there was a good chance that a second mortgage Nehemiah loan would be repaid as the value of the houses increase year by year and the original buyers re-sold.

Therefore, we knew that if we could put together free construction money, devastated or low-cost in rem land; low-interest state mortgage loans for first home buyers, the benefits of large-scale construction and a no-interest second mortgage, we could build and sell a house for half of the conventional market and take care of working stable families in the \$20,000 annual income group who otherwise could never own a home.

If you could direct your attention to the chart to my left, you will see that a home similar in every way to a Nehemiah home sells for at least \$80,000, with a monthly payment of \$840. Millions of decent stable working families cannot afford this home.

On the other hand, the Nehemiah home costs approximately \$50,000, with a monthly payment of \$300. Here's why:

On a broader level, \$70,000 can "buy" the City of New York one new unit of public housing, while \$70,000 invested in a Nehemiah approach "buys" 7 new Nehemiah homes and 3 freed-up units of public housing.

Chairman GONZALEZ. We next recognize Mr. Mike Gecan.

Mr. GECAN. If it would be all right, Mr. Chairman, could I speak last on this panel?

Chairman GONZALEZ. Certainly. We will recognize Commissioner Gliedman.

**STATEMENT OF HON. ANTHONY GLIEDMAN, COMMISSIONER,
NEW YORK CITY DEPARTMENT OF HOUSING PRESERVATION
AND DEVELOPMENT**

Mr. GLIEDMAN. Thank you very much, Mr. Chairman. I am obviously very pleased to be back here so quickly after having had a chance to speak about H.R. 1 about 3 weeks ago. At that time, I went into analysis amongst other parts of my testimony about the Nehemiah proposal of Congressman Schumer's and Mr. McKinney's. I think I went into substance at that time.

I see no reason to duplicate what is being said today. What I would rather do is to talk to you just momentarily, if I could, about what it was like when I was approached by Mr. Robbins, Mr. Gecan, Reverend Youngblood and others from east Brooklyn churches with a totally untried idea about basically—they came and said, "Have we got a way to rebuild Brownsville for you."

You know, as a housing commissioner, we sat down. I must tell you there was a degree of incredulity on our side. We had great confidence in the individual's that were there. We very much believed in the community that was being represented there. Yet, the idea of building homes and having people buy homes in Brownsville was obviously very tough for us to accept at first.

It was only as we started to meet the people and get to know them better, not the representatives, those we know, but the people themselves and get to see the dynamism, the spirit that is there as well as the highly talented Mr. Robbins in action that we began to actually say and put our necks on the line, if you would, and say, "Let's go forward. Let's give it a try. Let's try a program that is different than any other one like it in the country," that I know about, anyway.

And let's make it possible for people to be able to buy homes for \$35,000 and \$40,000 apiece. So in fact the person making \$20,000 a year could afford to buy their own home and to be part of that moment, because in New York City for so long homeownership has been the province solely of the middle class and the upper-middle class. Very few blacks and Hispanics could ever own their own homes in New York City. It was simply not possible.

One of the major goals of our administration is in fact to have that happen through the various alternate management programs we have talked about before, but through nothing else as important to my way of thinking as the Nehemiah Program. What we have seen happen in Brownsville is something that can be replicated throughout communities throughout the country.

I tell you this because it must be done to believe that a program like this can work. I must tell you that I am convinced. I know it can work. I must say it with you. I have got today the chance to meet some of the people that live in. And I must say that I see nothing on the horizon.

bright for low-income and moderate-income people to own their own homes as Nehemiah, and I urge you to favorably consider the legislation before you.

Chairman GONZALEZ. Thank you very much, Commissioner.

[Mr. Gliedman's prepared statement follows:]

TESTIMONY OF ANTHONY GLIEDMAN
COMMISSIONER OF HOUSING, NEW YORK CITY

Before the

THE U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

March 14, 1985

It appears that I have been fortunate enough to become somewhat of a "regular" at these hearings. Once again, I have the opportunity to thank Chairman Gonzales, and the members of the New York City delegation: Congressmen Schumer, Garcia, and Manton for inviting me.

I am always happy to be able to support a promising new housing initiative. It seems that lately I have all too often been called upon merely to plead for the continued survival of our on going efforts. In the course of these discussions, I have evoked bleak forecasts which may be realized as a result of proposed cutbacks. But today, I can conjure up visions of hope and rebuilt neighborhoods and proud new homeowners. And in this case, I can even point to the actual achievements of the Nehemiah program in Brooklyn, New York as testament to the National Nehemiah Program's potential to improve conditions through out the country.

In the past two years, the New York Nehemiah program has succeeded in producing far and away the most affordable new houses in the City.

The Nehemiah Trust has already managed to build over 200 homes toward a projected total of 1000 homes in phase 1. These homes are being sold for \$41,000 making them affordable to families with incomes between \$20,000 and \$35,000. The value of this achievement can not be overemphasized. The program is not merely offering renters a chance to become owners, it is providing improved living conditions for low and moderate income families who would be hard pressed to find decent accommodations in the rental market.

The Trust has been able to market these homes at such low prices for a number of reasons. To begin with, the East Brooklyn Churches have contributed 8M dollars to establish a revolving loan fund - eliminating the need to roll construction loan interest into the permanent mortgage. Permanent financing has also been provided at below market rates through tax exempt bonds issued by SONYMA. Finally the City has supplied a significant amount of assistance in the form of free land disposition, site clearance, some site preparation, and a \$10,000 interest free loan to the purchaser. This loan is repayable only if the original purchaser sells his home. In effect, it serves as a grant-lowering the purchase price from the \$50,000 range to the \$40,000 range.

Another reason that the Nehemiah homes can be constructed so cheaply lies in the devastated condition of the area which became the project site. This particular area of East Brooklyn had suffered through widespread abandonment and subsequent building demolition. The result was an expansive, largely vacant site enabling the builders to utilize economies of scale not usually enjoyed in major urban centers.

The very nature and extent of this devastation highlights another potential attribute of the Nehemiah program -- the power to literally rebuild neighborhoods. All too often we as government officials are only able to fashion programs which can help "marginal" neighborhoods where the potential for improvement is strong. The Nehemiah effort, however, has demonstrated that even areas suffering from more severe deterioration can be renewed.

The production of these homes has created an entirely new environment when one was clearly needed. The area will be much less dense than it was before. There will be more open space in general and more private outdoor space for each family. In addition, the residents, as owners, will naturally have a greater interest and commitment in the neighborhood.

Equally important, the size of this development has ensured that this achievement will not easily be swallowed up amid the overall trend toward deterioration. This new environment will not be an isolated fortress though. The Nehemiah homes have been purposely located near areas where other revitalization has occurred or is underway. In this way, the homes are enhanced by surrounding improvements and conversely, the Nehemiah development can serve as an anchor for other rehabilitation and construction.

Lastly, the construction of these homes has afforded a number of construction employment opportunities.

I believe the accomplishments of the New York Nehemiah plan can be duplicated throughout the nation, both in areas "like East Brooklyn" and neighborhoods where deterioration is not as pronounced. The National Nehemiah effort will address several of our most pressing housing needs.

To begin with, housing is becoming less and less affordable. Rent to income ratios are on the rise and nowhere is the "affordability gap" spreading faster than in the homeownership sector where the average house price is rising much faster than the average family income. The New York Program has demonstrated the ability to close that gap and produce homeownership opportunities for moderate and even low income families.

The potential benefits of low income ownership increase dramatically in an urban setting of upward and downward neighborhood pressure. Not only will the new owners exert more time and effort to prevent the surrounding neighborhoods from declining, they will ~~be better protected should upward market~~ forces make displacement a threat.

Another major problem facing our cities is the alarming number of neighborhoods which are becoming less and less viable places to live. In some cases, much of the existing housing stock may no longer be economically feasible to operate. Other areas are left shell shocked by vast exoduses of the original population groups, and some have been ravaged by the forces of arson. In many instances, the overall decline of a neighborhood will lead to the destruction of the remaining housing, which is another setting, may be quite viable economically and more than adequate structurally.

These neighborhoods need a dramatic change to once again become attractive places to live. In a period of extreme housing shortage it is indeed a shame to lose valuable housing resources to the forces of neighborhood decline. I believe that the National Nehemiah program is one of the few national efforts which can bring about a significant change in neighborhood's environment. The physical nature of the built environment will change as will the attitude of residents. I am happy to say that Nehemiah's legislation includes a minimum site size of 50 homes further assuring its impact on the neighborhood.

The National Nehemiah program will provide Federal Funds in order to make the \$10,000 to \$15,000 no interest loans the City is currently offering in the New York program. This should not be seen, however, as relieving local governments of their responsibility in this effort. It is important that cities work to provide the land and the buildings (in case of substantial rehab) for the construction of the new homes. The local government should also take steps to prepare the sites and assure that the streets and the necessary infrastructure are supplied, so that the development can indeed be attractive to purchasers. I believe the authorizing legislation must require the local government to make significant contributions before a program may be approved. Without this assurance, and without a sizeable participation by the non-profit organization, the homes can not be truly affordable to low and moderate income families.

I would also suggest that all repayments of National Nehemiah Grants (upon sale by the original owner) be reserved for program eligible uses, so that when low income owners are fortunate enough to capitalize on their homes - another low income potential home purchaser may also be a beneficiary.

Again I would like to thank the members of the Committee for allowing me this opportunity to testify. I am pleased to express my support for the National Nehemiah Housing Opportunity Grant Program and I will be happy to work with you in any way I can to secure its passage and bring about its implementation.

Chairman GONZALEZ. We next recognize a wonderful person with whom I have had the great honor of first meeting when I began what has turned out to be a political venture, and first served on the city council of San Antonio. I can't tell you in words how pleased I am to see Mr. Winston Martin here today. He has done things in our hometown under very difficult circumstances that should have received national notice long ago.

But today, Mr. Winston Martin, who is the executive director of the San Antonio Development Agency, is here to provide us with a summary of the program in San Antonio that is very, very innovative, and is of tremendous use to the subcommittee. I have asked him to come and provide us with a summary of his replacement housing program, and also his comments that he may wish to make on the Nehemiah Demonstration Program, which is what we have in our bill.

I would like to point out that what we have incorporated in our bill, H.R. 1, provides for a demonstration type of program. We are authorizing \$300 million for the program. I do not want anybody thinking that because they have heard beautiful concepts and heard from individuals that have been able to purchase or attempt to purchase their homes, that therefore there should be no argument in behalf of Federal expenditures, or commitments.

I know that as we go into this, Mr. Martin, we will be given more details from both the State of New York and the local New York officials about their limitations. Also, there were church limitations where, for instance, the land, such as you saw in Brownsville and in that part of the Bronx that has been literally destroyed, was provided free of charge.

The reason we believe that it should be on a Federal level is that we believe the basic concept of Nehemiah should be available throughout the country. For instance, I would like to point out to my colleague from Dallas that some Texas churches are doing the reverse. For instance, in Dallas itself, just recently, the housing authority disposed of close to 300 units by selling them to the Baptist church who needed that project for expansion of the Baptist hospital.

So obviously, a land factor was involved there. The sad part is that nobody was struggling to say we will replace these lost units for the poor in Dallas from this project known as the Washington project. That was privatization.

Mr. BARTLETT. Would the chairman yield?

Chairman GONZALEZ. But it isn't the kind of privatization that I think we have in mind. What I am saying is that we should not misconstrue what we have in H.R. 1. Yes; I would yield to the gentleman. I mentioned his city.

Mr. BARTLETT. You mentioned Washington Place in Dallas and at the risk of making this hearing into a hearing on Washington Place, I would point out to the chairman that the facts are the reverse. That is, the proceeds supported by many of the tenants of public housing and supported by the city of Dallas, in a deliberate choice, those proceeds from the sale of Washington Place were used to rehabilitate and modernize and to make habitable units of the then existing vacant housing in other sections of the public housing stock.

The city of Dallas still has approximately 1,000 vacant uninhabitable units of public housing. So the chairman referred to choices earlier, and I think Dallas did make a choice that they didn't want to have 1,000 units of vacant housing sitting around. They used the proceeds of the sale of one dilapidated area of public housing to make livable other units in the area.

Chairman GONZALEZ. But it was sold to the Baptist church.

Mr. BARTLETT. It was, or Baylor Hospital, who provided the funds therefore to rehabilitate and to make livable units of public housing which prior to that time had not been habitable, not been up to Federal standards or city code or any decent and safe sanitary standard.

Chairman GONZALEZ. The reason I spoke the way I did is that we have witnesses from Dallas, tenants in the Washington project that came to ask us to intervene and try to prevent the sale, because they weren't going to have any place to go to. And they didn't. So that you are right, we don't want to divert the theme here.

But I did want to say that we think it can be viable in other parts of the country only if we have Federal support such as the support that was available in the New York Nehemiah plan, where the private institutions and the churches were able to provide, free of charge, the basic element in construction; namely, the land. Above all, you had the construction money. You also had the land available that was deriving no taxes to the city, and was just sitting there. No bank or construction firm would even put a penny in there to construct any kind of building. Plus the existence of local and State housing organizations that did contribute a substantial element—time. Only, they cannot do it for a second Nehemiah Plan.

We don't have that kind of local or State structure in the State of Texas. I just wanted to make sure that we didn't misconstrue support for what we are being told here today was support for H.R. 1, because it will call for a commitment of an authorization of \$300 million which is what we estimated as the basic national need.

Mr. BARTLETT. Will the chairman yield briefly?

Chairman GONZALEZ. Certainly.

Mr. BARTLETT. I will be very brief. On the chairman's main point which is, I think, that it is important that the churches particularly, as well as city governments, public housing authorities, and in fact all of us get involved in Nehemiah types of projects. It is going to take all of us. The churches in Dallas are involved. I concur with the chairman. I would like to see them more involved as well as the churches in New York, St. Louis, and elsewhere.

I think it takes all of us. Churches and nonprofit organizations are a significant source of resources for Nehemiah type of projects and homeownership projects.

Chairman GONZALEZ. Pardon me, Winston, but that was a big introduction.

**STATEMENT OF M. WINSTON MARTIN, EXECUTIVE DIRECTOR,
SAN ANTONIO DEVELOPMENT AGENCY, SAN ANTONIO, TX**

Mr. MARTIN. Mr. Chairman, members of the committee, I deeply appreciate the opportunity of being with you today. I have pre-

pared a statement which will be a matter of record, but I will try to summarize.

Chairman GONZALEZ. Certainly. Without any objection, your statement, as prepared and presented to us, as well as the other witnesses' will be in the record as you presented it, as well as what you say here in the transcript.

Mr. MARTIN. When I first became familiar with the Nehemiah plan, I was quite excited and am still, because it is a tool to be used by those of us who have been working for some 25 years in our cities to try not only to provide housing at a price people can afford, but provide neighborhoods they want to live in. Yet, we need to sort of shift gears a little bit if we go down to Texas because the kind of properties we have here are not that similar to those in the east where you have a great deal of abandoned property and vacant property.

In San Antonio, because of the very strong Mexican-American interest in homeownership, there are many, many of our families who have worked all of their lives to acquire a piece of property that is theirs, but the house more times than not is substandard. It was never built to standards in the first place—many with dirt floors, others with cedar posts that rotted out years ago, and the houses are completely uninhabitable, yet they are still in habitation simply because the people will not give up that right of ownership.

The Nehemiah plan rightly adjusts new homeownership and opportunity for families to own a home. What we are doing in San Antonio—and let me again say this came about through citizen action as did the Nehemiah plan. Most successful government does come about through citizen initiation and actions; in fact, I would say all, if it is going to work. Citizens of San Antonio found their neighborhoods had a great deal of owner occupancy ownership, yet the property was either unsafe or they could not get the funds necessary to rehabilitate and bring it to standards even if it were inhabitable.

Using the community development block grant moneys, we have instituted a program of housing replacement. New housing—we cannot use those moneys to build housing under the law, but there is a relocation process that does permit that if displaced by acquisition of their substandard property, to take the money they paid for their land and improve and reinvest that in a standard house.

In San Antonio, we are literally turning around neighborhoods. In addition to the changes in the neighborhoods, the town itself has a renewed interest in life because it is the center of activity for those in the surrounding neighborhoods. The most exciting thing I see happening there is a new pride in ownership in the sense of the area. One of the gentlemen earlier spoke about the fact private enterprise is not going to invest in a slum. That is true. You can't expect them to.

Nor is a private individual going to take his meager savings and put them back into a slum area. They would simply relocate, thereby vacating the neighborhood. We are not doing that in our city. We are rebuilding that neighborhood for the residents living there at the present time. We use two systems to accomplish this. We call the total taking. With cooperation of the neighborhood neighborhood association—and let me digress just a moment to

when I spoke to the citizen leadership—San Antonio citizen leadership is the most organized and effective I have seen anywhere. An organization called Citizens For Public Service can take great credit for that.

The churches in America are recognizing that they have an important role in housing the people of our communities. Once we find the property cannot be rehabilitated because we do have low interest rate loans available to families who can rehabilitate their properties, we acquire the property and pay fair market value. If it is a standard lot they simply retain ownership of that lot, and we buy only the structure. They in turn, using the money they paid for the structure and a grant, \$15,000, the relocation grant available to them under the law, rebuild a house on that lot. In San Antonio, using small minority contractors, we are building housing for between \$28,000 and \$32,000, which, of course, in the private market they would be something like \$45,000 to \$60,000, which is still less than it is, I am sure, in New York and other places.

We are seeing our areas completely changed. When we first started the program, if you asked someone where they resided, they said, as the gentleman did earlier—they were a little ashamed to say—they would say, "I live on the West Side" or "• • • the East Side." Today they say: "I live in" their area, with a great deal of pride, because it has an identity with which they associate themselves. This could not be possible without the assistance we have had through the Community Development Block Grant to carry the program forward.

It concerns us a great deal when one of the major tools used to accomplish this—which again is the stated purpose of this administration, to provide private enterprise housing, provide homes for families who may not be able to afford them, and to get away from the concept of public housing, to some degree, for those who can afford a house if given the opportunity. That is being accomplished in our city. We would invite you to see that.

We also would like to volunteer San Antonio as one of the next Nehemiah projects to show it can work in the South, even though the type of housing required is totally different from that in the instance outlined for you.

Our neighborhoods are changing. People's attitudes toward their neighborhood has changed. But the people that were there are there now benefiting from that change rather than, as so often happens under urban renewal, where total areas are displaced and raised.

We do not have the vacant or public land in the South in our cities that you have in some of the eastern cities where the properties have been destroyed or abandoned. By the time a house is abandoned in our city, it is not habitable. So we are dealing with them in a different manner.

We are concerned also when we talk in terms of the Section 312 Program. We see no necessity for its being disposed of or done away with. The moneys being used for that are a revolving loan fund, which comes back to those programs for reuse in helping families. Section 312 has worked very successfully in our city, along with the programs of Community Development Block Grants and loans assistance.

Also, our town is being changed as far as the downtown area is concerned. We are getting downtown housing for the first time in 85 years, standard housing being built in the center city. This was done through programs such as Urban Development Action Grant.

Simply stating that it takes not one effort, not one program, but a combination of diversified imaginative uses of effort from the Federal level, State level, the local level, and certainly private enterprise, to deal with the problems of obsolescence and blight, which has been the continual problem for our cities for all of these years, and will continue to do so unless we address it in a concerted effort.

One of the things that has been said earlier is the importance of the people themselves wanting to do something about it. There is not a single program in our city that was not designed in essence by the Citizen Action Group. They are part of the process of determining the city budget and how it should be allocated—the CDBG funds, more than half that go to housing the low income.

That is the kind of government I think we can take pride in, and frankly the one the administration is saying they want to see more of. They want to see initiative at the local level. They want to see more decisionmaking at the local level. These programs have provided the cities the opportunity to do that.

In a city where our tax dollars are stretched to the very maximum limit, we are dependent upon programs of assistance such as Community Development, UDAG's, 312, and any other program that has proven itself to be one that private enterprise participates in in the regrowth of the communities.

As we look at our city and look at the Nehemiah plan and how it would apply there, we are encouraged because this is something that is working. We have seen the results of it, even though on a very limited scale. I am sincere when I say we want to attempt something very similar to this in San Antonio.

I would like to close, if I may, by making a statement we feel very strongly about in our city. If you want to live in the kind of a nation, the kind of a country you like, you needn't pack your things and start on a long hike; you would only find what you left behind. There is nothing really new. A knock at your government is a knock at yourself, because in this country your government is you.

Great cities and countries are not made by those who are afraid. You have to plan and stride ahead. If everyone works and no one shirks, we can raise our cities from the dead. If, while we are finding our happiness and our success, we should find our neighbors find theirs, too, then our country will be what we want it to be, because it isn't your country—it is you.

Thank you.

Chairman GONZALEZ. Thank you very much, Mr. Martin.

[Mr. Martin's prepared statement, on behalf of the San Antonio Development Agency, follows:]



M. WINSTON MARTIN
EXECUTIVE DIRECTOR

San Antonio Development Agency

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Testimony of M. Winston Martin
Executive Director of the San Antonio Development Agency
San Antonio, Texas

before the
Subcommittee on Housing and Community Development
of the
Committee on Banking, Finance and Urban Affairs
United States House of Representatives

March 14, 1985

Mr. Chairman and Members of the Subcommittee on Housing and Community Development.

My name is Winston Martin and I am executive director of the San Antonio Development Agency which plans and implements housing and community development programs for the City of San Antonio, Texas, using Community Development Block Grants and other funding sources. Prior to the advent of the CDBG program, the San Antonio Development Agency administered the City's urban renewal program and, therefore, has been addressing housing and redevelopment concerns for 25 years.

Through combined efforts of citizen involvement, public commitment and private initiative, deteriorating neighborhoods are being renewed, a once declining central business district is experiencing unprecedented growth and revitalization and depressed commercial areas are gaining economic stability. For the past decade, the catalyst for all this has been the effective use of such programs as Community Development Block Grants and Urban Development Action Grants to carry out basic renewal and housing activities in order to attract vital private investment and development in areas the private sector otherwise would be forced to ignore.

One such example is the new home construction program that the San Antonio Development Agency is carrying out in once-deteriorated, once-redlined neighborhoods and which, like the Nehemiah Plan of East Brooklyn, New York, was developed to fill a need and a void. It is because of this experience with low-income home ownership that I appear today to endorse the Nehemiah Opportunity Grant

Program contained in the proposed Housing Act of 1985.

Through an active citizens participation structure, a number of depressed, older neighborhoods were brought to the attention of the San Antonio City Council and San Antonio Development Agency planners and subsequently given the designation of Select Housing Target Areas. Existing housing within these areas are largely single-family structures which are not structurally sound and, for the most part, are infeasible for rehabilitation. Many of these homes began as one or two-room wood frame units with additions added on by family members or friends as the need arose for additional space or as financial resources became available to make expansion possible. Most of these houses, too, are built on wooden post foundations which deteriorate over a relatively brief period of time. Many of these houses were built by lumber companies and sold under a contract of sale to families who do not gain title until the last payment is made. When families miss even one payment, their homes are often pulled from them and resold, leaving the original owners with no equity position. Many times, even the houses that are resold are substandard. Yet, the strong Mexican-American heritage and culture in these neighborhoods place a high value on single-family home ownership and families will continue to live in even marginally habitable homes because that ownership is so important.

Simply stated, San Antonio's new home construction program is based on provisions of the Uniform Relocation Act. Homeowners are displaced through acquisition of their properties, then given the opportunity of building new homes using the replacement housing assistance they receive. In the Select Housing Target Areas where the majority of houses are dilapidated and lots are

extremely substandard in size, the plan of action initiated by the Agency and neighborhood residents is one of "total taking" and redevelopment using a cyclic process by which substandard housing is replaced by standard housing. Properties are acquired by the Agency on a house-by-house, block-by-block basis. Acquired substandard structures are then demolished and the land is replatted into standard-size lots. These lots are then purchased by displacees who build new homes financed, for the most part, by relocation assistance. Public amenities, such as paved streets, curbs, sidewalks and adequate utilities, are also added as part of the total redevelopment process. In other Select Housing Target Areas, where a larger percentage of the housing can be rehabilitated and the lots are standard in size, the Agency has carried out a "structure only" program. In these instances, only the house is acquired and the displaced homeowner rebuilds on the same lot. By the end of this fiscal year, nearly 600 new homes will have been built using these two approaches.

In areas where the Agency has completed spot building, only a limited effect on the quality and value of the total neighborhood has yet been realized. By contrast, in areas where a concentrated building program has been undertaken, the improvements are readily apparent. And as some of the initial homes begin to mature, these neighborhoods take on a dignity and quality which is a source of pride for everyone.

While there is a definite role for non-profit developers in the actual construction of these types of homes, as illustrated by the remarkable success of East Brooklyn's Nehemiah Plan, our experience in San Antonio has proved there also is a role for small minority for-profit contractors. From the

inception of San Antonio's new housing construction program, small contractors have been providing quality, low-cost housing. With minimal square footage requirements necessary to meet family composition needs, these single-family detached homes are being built from \$28,000 to \$32,000.

An important measure of this program's success is a practically non-existent default rate. Another is the fact that some of the available lots in these revitalized neighborhoods are now being bought by contractors for speculative building. A few houses have been sold on the open market and have proved to be in demand with values that are slowly increasing.

In San Antonio, we have been carrying out new housing construction by applying a degree of creativity to existing regulations and also are working on a plan to provide deferred second mortgages to owners of dilapidated, unrehabitable homes to generate more new housing construction. This will not only complement our current program of new construction and rehabilitation but also will dramatically expand the number of families who can be assisted in obtaining adequate housing. But, more and more families at the low and moderate economic levels need to be reached and we, in San Antonio, would welcome the available option of a national program like the Nehemiah Opportunity Grant Program. We would not hesitate to volunteer for a demonstration effort aimed at assessing the program components and workability of the Nehemiah Plan in another part of the country. It is certainly another concept that is needed and we strongly urge the inclusion of this type of program in this year's housing legislation.

I would like to reiterate what I am sure you have heard many times during this

hearing. When the President submitted his budget for Fiscal Year 1986, with deep cuts in most housing and community development programs, he was in effect turning his back on American cities and this nation's moral commitment, as stated in the Housing Act of 1949, to improve the quality of life for its citizens through safe and decent housing. Administration officials may well argue that a 10 percent cut in the Community Development Block Grant Program will not really hurt a city's ability to address and upgrade physical conditions in deteriorated neighborhoods, rehabilitate rundown housing or to provide economic and employment opportunities to low and moderate-income citizens. Yet, consider this. Even though San Antonio's CDBG Entitlement has remained relatively constant for the past four years in keeping with national fiscal constraints, the actual buying capacity of these CDBG funds has been reduced by approximately 46 percent. Realistically, San Antonio, with a municipal budget stretched to its limits, has already had its ability to deal with these problems cut almost in half. (Attached for the record is an analysis of San Antonio's CDBG funding.)

Or consider what the logic might be for the Administration to recommend complete elimination of the Urban Development Action Grant Program, the one national program that involves initial private investment and initiative. San Antonio received an \$18-million UDAG for what is known as the Vista Verde South Project. This area had the lowest per capita income in the city. Dilapidated row housing and corral housing with common sanitary facilities were prevalent. The few light industrial and warehousing operations in the area were stagnating. No private developers were interested in the area. Now the story is different. A 250,000-square-foot shopping/entertainment mall is under construction and

will open this summer. A national hotel chain has plans to build in the area and existing commercial enterprises have been expanded. A company that manufactures and assembles computer components is constructing the third building of a planned five-building complex, resulting in employment training programs and already more than 150 permanent new jobs. Standard housing is replacing the unbelievably deteriorated conditions that existed before. Nearly 1500 construction jobs have been generated to date. When the project is completed, the \$18-million Urban Development Action Grant will have leveraged more than four times that amount in private investment. That's a good return on the dollar. That's a program the Administration wants to eliminate.

Another program slated for elimination is the 312 Rehabilitation Loan Program. This is a good, basic useful tool that has proved its worth many times in neighborhood revitalization efforts in all parts of the country. Moreover, its continuance will not even affect current budget considerations since funds for the program come from an established revolving loan pool.

Much has been done in San Antonio in the areas of housing and community development; yet, clearly, there is much more to do. Too many of our citizens still lack the opportunity of living in decent housing; too many of our older neighborhoods and commercial districts have gone beyond the point of unassisted rejuvenation. While all of us realize the importance and necessity of reducing the national deficit, it cannot be at the expense of this nation's cities. Cities alone, without a strong commitment of national policy and funding for housing and community development programs, simply will not be able to continue

reclaiming and renewing areas of decay or providing decent and livable housing for all citizens.

Thank you for the opportunity of coming before you today to bring our experiences in these programs to your attention. I will be happy to answer any questions the members of the subcommittee may have. Again, thank you.

CITY OF SAN ANTONIO

LEGISLATIVE POSITION PAPER
U.S. CONGRESSSUBJECT:

Community Development Block Grant Reauthorization - Housing and Community Development Act of 1985 and Fiscal Year 1986 Appropriations

BACKGROUND:

The City of San Antonio has received \$185.3 million in Community Development Block Grant (CDBG) Entitlement funds over the 10-Year Entitlement Period beginning with FY 1975-76 through FY 1984-85. These funds have been expended in an effort to effectively address revitalization needs in the City's older, distressed neighborhoods and to directly benefit low and moderate income residents by providing for increased economic and employment development opportunities. In addition, CDBG program funds represent the primary resource in the City's efforts to provide a suitable living environment through the implementation of housing rehabilitation programs, street and drainage reconstruction activities, and providing for needed public and recreational facilities. For the past 10 years, the City of San Antonio has addressed these critical local concerns by expending CDBG allocations as indicated:

City of San Antonio: Use of CDBG Funds
(FY 1975-76 through FY 1984-85)

<u>CDBG Activity</u>	<u>% CDBG Funds Allocated</u>	<u>Total CDBG Funds</u>
Streets & Drainage	45%	\$ 83.4 million
Recreation	5%	9.3 million
Housing	30%	55.6 million
Neighborhood Preservation and Revitalization	9%	16.7 million
Economic Development	6%	11.1 million
Planning	3%	5.5 million
Administration	<u>2%</u>	<u>3.7 million</u>
	100%	\$185.3 million

FINANCIAL ANALYSIS AND IMPACT:

During the past 10 years, the City's CDBG Entitlements have ranged from a high allocation of \$24.4 million (FY 1980-81) to a low allocation of \$16 million (FY 1976-77). For the past four years, San Antonio's CDBG Entitlement has remained relatively constant at the \$17 million range. This reflects national fiscal constraints and conforms to federal budget policy freezing program appropriations at or below FY 1982-83 levels. However, although the allocation has remained constant, the actual buying capacity of these CDBG funds has been reduced by approximately 46%¹ (Exhibit I).

The CDBG Entitlement Program is the principal funding resource available to the City to locally address the deleterious and insidious conditions of deterioration in our older distressed neighborhoods. The severity of declining conditions in these areas is indicated by the response received during the City's annual Citizen Participation process from which the City consistently receives citizen requests for CDBG assistance in excess of \$250 million. Although all requests cannot immediately be addressed, the City has strategically administered its limited CDBG resources to leverage private sector support and participation in revitalization activities to the maximum feasible extent. This use of CDBG funds has enabled San Antonio to address critical neighborhood conditions hazardous to health and safety, while providing the initial impetus for independent private investment to continue revitalization activity.

SUMMARY AND RECOMMENDATION:

As indicated above the CDBG Program is the primary resource available to the City of San Antonio to effectively address and alleviate severe deteriorated conditions in older distressed neighborhoods. The freezing of CDBG Program appropriations at the FY 1982-83 level, combined with the addition of significant program activities, requirements and responsibilities during the past four years, has resulted in a defacto CDBG program reduction at the local level. Further reduction, dilution or elimination of the CDBG Entitlement Program will result in serious constraints and curtailment of the City's ability to address and upgrade physical conditions in deteriorated neighborhoods, or to provide economic and employment opportunities to low and moderate income citizens.

The City recognizes the urgency for instituting national policy action to reduce the federal deficit. However the welfare of the nation's citizens and the continued physical and economic health of our cities must also be addressed and prioritized in legislative fiscal policy considerations. The Community Development Block Grant Program represents the primary resource for cities to locally address debilitating deterioration and decay of the physical infrastructure, and to provide opportunities to improve the quality of life for lower income residents. Cities have absorbed to the best of their abilities, the reductions resulting from the Program appropriations freeze of FY 1982-83. Therefore the City supports legislation to maintain FY 1986 CDBG budget appropriations at the current level. Further, the City supports enabling legislation to enact the Housing and Community Development Act of 1985, to reauthorize the Community Development Block Grant Program through FY 1989.

¹Using FY 1975-76 as the base year.

EXHIBIT I

History of Community Development
Block Grant Entitlements

City of San Antonio

<u>Fiscal Year</u>	<u>CDBG Entitlement</u>	<u>Entitlement Amount</u>	<u>Deflated Equivalent*</u>
Base Year: 1975-76	1	\$ 17,955,000	\$ 17,955,000
1976-77	2	16,070,000	15,285,570
1977-78	3	17,530,000	15,636,760
1978-79	4	18,226,000	14,927,094
1979-80	5	19,851,000	14,491,230
1980-81	6	24,471,000	15,857,208
1981-82	7	20,072,000	11,802,336
1982-83	8	17,223,000	9,730,993
1983-84	9	17,014,000	9,238,602
1984-85	10	16,905,000	8,824,410
		<u>\$185,317,000</u>	<u>\$133,749,205</u>

*Source: Bureau of Labor Statistics - Deflated to 1975-76 Dollars

Chairman GONZALEZ. We come to Mr. Gecan.

**STATEMENT OF MIKE GECAN, NATIONAL STAFF, INDUSTRIAL
AREAS FOUNDATION, SAUL LINSKY INSTITUTE**

Mr. GECAN. Thank you.

I am Mike Gecan on the national staff of the Industrial Areas Foundation, Saul Linsky Institute. Since Mr. Linsky's death 12 years ago, the foundation has been headed by executive director Edward Chambers.

Like my colleagues of Maryland, Texas and California, I am a professional organizer. Our primary work is not the building of homes, although we are privileged to play a role in the Nehemiah plan, but the building of independent, self-sufficient congressionally based organization of the kind you see represented in this room.

The Nehemiah plan is unique in some ways, but we believe shares some of the fundamental features of all our efforts. First of all, Nehemiah, like our organization, is not good news for everyone. Like the Queens Citizens Organization, Nehemiah is bad for those bureaucrats who wish to stifle or strangle progress. Like Communities Organized for Public Service in San Antonio, Nehemiah is bad for ideology of either camp.

Those who say government must initiate, cultivate, execute, regulate every new notion are disturbed by what we call our iron rule: Never do for others what they can do for themselves. Like Build in Baltimore and South Central Organizing Committee in Los Angeles, Nehemiah is bad for those who say government has no role to play in the future of our central cities. The planned shrinkage crowd needs to go back to the think tanks to fish for a new cliché.

Finally, like the Metropolitan Organization in Houston, Nehemiah is bad for paper coalitions, ersatz organizations, groups that are mere extensions of Federal funding, not stable and able to stand on their own.

While it was bad for some, the concepts underlying the Nehemiah approach and values undergirding our organization are, we believe, good for most Americans. Nehemiah demonstrates the value of diversity, the value of accountability, including our own, the value of production—not just process—and the belief that well-organized people rooted in religious and democratic traditions will do the right thing, both for their local communities and their nation.

You won't find America's most beautiful people in magazines. We believe you find them here. And the best voices tend to be not on records or tapes, but in this room—the soft voice of Mrs. Goffe, the rich voice of Reverend Youngblood, the vital voice of Mrs. Torres, the sure, secure voice of Mr. Robbins, and the authentic American voices of the four fine leaders who will follow me to this table.

There are other voices here today who will not be heard—Charles Frank, senior executive of U.S. Trust and Episcopal representative to the Nehemiah Trust; Fred Forster, senior executive at Pfizer Chemical and Lutheran representative; Kevin Carney, attorney to the Diocese of Brooklyn, one of the Roman Catholic representatives to the Nehemiah Trust; Mrs. Patricia Ottinger, past

president of the Queens Organization; and Hugh Kelly, long-time adviser to the east Brooklyn churches.

There are two important bishops who you will not see or hear today—Bishop Robert C. Witcher is the leader of the Episcopal Diocese of Long Island; Bishop Francis J. McGovero, the glue to this Nehemiah effort, the mortar that keeps the bricks together. We believe when the story of Nehemiah is finally written, he will be the No. 1 hero.

We believe this rich diversity of race, religion, geographies, and classes is the best our country has to offer.

Recently, one official asked me if we were building homes to house some new political force. I said no. Upon reflection, I should have said yes. We are putting together the kinds of organizations and Nehemiah teams that have the power and professionalism to build homes, schools, and communities for all those striving to rise from poverty and near poverty into the promise and opportunity of the vast moderate American middle.

We are working with bishops and bankers, citizens and Senators to carve out fresh public space, a space for those who shy away from permanent partisan polarities, from fitful political movements, from unproductive activism.

As in the construction of the Nehemiah homes and our presentation here today, there is joy in this type of building—real pleasure in it—and growth for those of us involved. This country isn't closed and cramped so long as leaders and organizers, officials and commissioners, pastors and politicians have a mind and will to do this important work.

Thank you.

Chairman GONZALEZ. Thank you, Mr. Gecan. Thank you very much.

I understand Bishop McGovero is ill, and for that reason he could not be with us. I think that I express the hopes and prayers of each and every one of us on this level that he has a quick recovery and will continue that tremendous spiritual, active leadership in Brooklyn.

Mr. GECAN. We appreciate that. He is recovering well, but didn't want to make this kind of trip quite yet. Next month he might be down here with us.

Thank you.

Chairman GONZALEZ. OK. I recognize Mr. Mitchell for any questions or statement he may wish to make.

Mr. MITCHELL. Thank you, Mr. Chairman.

I do have a couple of questions that you may not want to answer right now—there are 400 people waiting to see your model home whenever it is open, which means there is a heavy demand for this type of housing. I would be interested in the criteria for selection of applicants. Surely there must be some kind of criteria that you use other than the person's work status.

Do you want to respond to that now?

Mr. ROBBINS. Oh, yes. The first rule is, first come-first-served. We got the first approximately 1,000 in—we didn't know whether they came in all at one time or one after another. We held a public lottery at which I believe the mayor and Governor were present, and drew the numbers, and those people got the first houses.

Since that time, it has been strictly on a first-come-first served basis. The only qualifications are that they earn enough to carry the house; that they have the downpayment in the bank—you can't say, "I am going to get it"—that they have employment; that they are employed and that they don't have excessive debt. Now those are fairly easy things for us to check.

I would say that if we had the houses and if we—we deliberately hold it down. I have to tell you that. We have to hold it down because we can make a lot of enemies when you don't give people the house they think they are going to get, so we can't take too many applications because we are not going to be able to give them houses fast enough.

I would say, without any difficulty, we have never advertised; mostly word of mouth. If we really made an effort, I guess we could sell 100,000 of them, but I don't know whether we could build 100,000 of them.

Mr. MITCHELL. Thank you, Mr. Robbins. I must say that you remind me very much of one of my heroes, Jim Rousch, who has really made the forefront and initiated a new plan for homeownership.

Mr. ROBBINS. Yes. His views and mine are very similar.

Mr. MITCHELL. I am curious as to why you are able to build these houses much more cheaply and sell them much more cheaply than private developers. There is a group in this country that is interested in maximizing the profits for building, by maximizing cost.

What has been the attitude of the real estate interests toward this kind of project?

Mr. ROBBINS. My friends in the industry are full of praise. Mr. Kelly from Landour—they are a big outfit—he is here today. I would say even if a fellow doesn't do it himself, he likes to be around the guy that is doing it. It is not unpleasant. I have lost no friends over this.

Mr. MITCHELL. You have really run into no opposition?

Mr. ROBBINS. No. They are not ready to build in this area, this kind of building, at least the ones I know.

Mr. MITCHELL. Yes.

Finally, Mr. Martin, I was particularly pleased with your testimony. I want to stress what you did—that there is no one approach. Under the 312 Program, I have seen blocks in cities just come alive, old houses strong and well-built, and they just needed some rehabilitation—although Mr. Robbins spoke of the cost.

I didn't utilize the 312 Program because I was an elected official. But I bought an old rowhouse in Baltimore 12 years ago deep in the ghetto. I paid \$3,200 for an old rowhouse. I took the light switch off; 10,000 roaches came out. Certainly, there was a problem with rats. It was in the 1800 block of Madison Avenue. Now the whole block and adjacent blocks have been purchased by black professionals who ordinarily would have gone to the suburbs. Instead, they have built—rehabilitated almost all of the avenue, and it is really one of the classiest areas of the city.

So I am emphasizing we need Nehemiah, 312. We need everything to come to grips with the type of housing crisis we have in this country.

Thank you very much. It was very informative testimony.

Chairman GONZALEZ. Thank you.

Mr. Bartlett.

Mr. BARTLETT. Thank you, Mr. Chairman.

Like Mr. Mitchell, I also concur that there are a number of diverse ways to approach the same goal. I do think that we at the Federal level, in any event, have deemphasized homeownership and emphasized subsidized rental in the past. And I would hope we could put some priority in that thinking.

I have a few specific questions. First, let me begin with a general question I asked one of the earlier panels. That is, could each of you describe both the impediments and assistance that was provided by the city government and by the Federal Government during the course of this? I am relatively certain it took both to assist.

I am also relatively certain that it was not all peaches and cream. You must have had some hurdles to overcome. I wonder if you could identify some of those hurdles and also the ways in which you were helped.

Mr. ROBBINS. Well, in public hearings we tend to deemphasize the hurdles we had to go over. I must say, before I knew Mr. Gecan and east Brooklyn churches, I had discussed this with the Secretary, Mr. Pierce, who testified yesterday. I spent a lot of time with him in his office in Washington here and with some members of his staff. I thought they were generally sympathetic with the idea. I was then writing extensively in the field, and they were familiar with this work. They told me they thought at that time that the extent of their assistance would be to encourage cities to use the funds which the Federal Government was making available in order to assist with the second mortgage part of the program.

When this had been presented to cities, it was always presented as not new money, and there was some resistance to that. The city of New York did not react that way. The city of New York, possibly because of the strong organization, possibly because—probably because of Mr. Gleidman's understanding of the program and Mayor Koch's understanding of the program, they came around.

We got a great deal of encouragement, very friendly encouragement, from Governor Cuomo, who saw this as an opportunity to help many of the cities of the State—Buffalo, Syracuse, Rochester, and others who have acute problems.

I would say that, as in any new program, it was difficult at first to convince public officials, who had a different idea of costs, who had not been through the revolution of the post-war period, who had never seen building done—I was part of the program. We built 1,700 houses in 1 year in 1949. On the GI bill, if you made \$55 a week income, you could buy a house. Some of those houses, by the way, are selling—we sold them for \$9,000—they are now selling for \$45,000, \$50,000, and up.

Mr. BARTLETT. If I could rephrase my question a little bit.

I am not so much interested in the broad support you got from the top level in terms of supporting or not supporting the program, but were there specific regulatory hurdles that you had to overcome?

Mr. ROBBINS. Well, we did not have block grants; no UDAG or anything like that connected with the program. Everything in this program came from the city or the State, or the churches. And we

met what I would call normal bureaucratic resistance to new ideas. Once we proved it, once we——

Mr. BARTLETT. I take it that was somewhat of an understatement.

Mr. ROBBINS. I am not about to try to make enemies over again.

Mr. BARTLETT. I am looking for ways, as we construct this legislation—for example—it concerns me that the community development was not able to be used.

Mr. ROBBINS. Oh, no, no; it was used. It was used. I don't know; Mr. Gleidman could tell how it was done. I don't know what they did.

But as far as the Federal Government is concerned—Mr. Pierce, Secretary Pierce—told me flat out that any city that wants to use community development funds for this purpose, they can do so.

Chairman GONZALEZ. Will you yield on that point?

Mr. BARTLETT. I would be happy to yield.

Chairman GONZALEZ. I think the record should show this.

The subsidies for the Nehemiah plan consist of basically four—\$10,000 per unit from the city of New York out of its city's capital budget.

Mr. ROBBINS. Capital budget, right.

Chairman GONZALEZ. Which, of course, could find some way.

Second, is the land cost, which is free from the city.

Mr. ROBBINS. Right.

Land, by the way, I should tell you, Mr. Chairman, that was selling for as low as \$200 a lot.

Chairman GONZALEZ. Yes.

Mr. ROBBINS. It had no real value.

Chairman GONZALEZ. That is right.

Mr. ROBBINS. But the city recognized that. It had a big investment in schools and streets and sewers. That was one of the charms of the program.

Chairman GONZALEZ. Third, no-interest construction loan fund, because the church provided those funds—churches.

Fourth, low interest permanent mortgage help from the State of New York. This is where the State mortgage authority came in.

So I did want to point out—and I think the record should show that those are the basic subsidies, if you want to call them subsidies.

Mr. BARTLETT. I understood the subsidies fairly well. Maybe Mr. Gleidman——

Mr. GLEIDMAN. If I may.

Mr. BARTLETT. Was it difficult to use community development funds? Community development says 80 percent. You targeted 115 percent.

Mr. GLEIDMAN. On this particular program, that is right. It is well above the median income for renters, certainly. It is about at the median income for homeowners in New York City.

But I think the real secret of this program, what I think this bill tries to replicate is to have each of us do what we are best at and to stay out of what we are worst at. I mean, what the city I think was able to do well here is to make the land available. If you take a look at the picture over there, you will see derelict buildings in the background—tearing those down so these homes could be built.

You had relocating the tenant here and the owner there. That was still on the site that a private party could never have done. We used condemnation power to be able to clear out the sites to make contiguous land available.

We were able to provide, as the chairman indicated, \$10,000 a house in capital grants; the land free. We also said, you know, when you are rebuilding an area like this, to have the real estate taxes jump right up to what they would be, you know, if this weren't a pioneering effort, would be wrong. So we provide for a long-term phase-in of the taxes so the owner doesn't start paying the taxes right away. And we basically try to focus on what we did well.

The real breakthrough, if I could, Mr. Bartlett, was instead of making the EBC—Nehemiah folks prove every step of the way that they could do what they said they could do—instead of having it with mathematical certainty, what we did was we agreed upon a concept where we said, "This is the kind of house you are going to build. It has got to, obviously, fit in with the building code. But we don't have to see the exact plans to approve it. We don't have to see everything to be able to, in advance, and to certify it and recertify it and send it through six mills."

We said, instead of that, "You build it and you have our second mortgage"—you know, interest-free, nonamortizing second mortgage. As you know, if the person stays 15 years, we never get it back and it is the best money we ever spent. It is that kind of situation. And basically telling them go ahead. If you bring this house in for \$50,000 and it is the kind of house you say you are going to build, you have our money.

All right, in the meantime, we don't want to talk to you. Go out and build. We don't want to spend—you to spend your days telling us and holding our hands, as is so often the case with FHA and other agencies in Federal Government. We basically tried to stay out of the way.

We weren't always successful. I don't want to make it sound like we were always successful in staying out of the way. There were times that Mr. Robbins and Mike and others came to me and said the city has stubbed our foot again, you know; help us through this process. And we were able to do that, by and large.

The best thing that came out of it in a lot of ways is that we have now changed our attitude towards a lot of builders. We have found out the city's codes and city processes were stifling builders all over the city from doing some of the things they wanted to do. So we learned by it, too.

It was a true two-way street. Not only have we all gained by rebuilding Brownsville and by helping thousands of families to be able to own homes they never thought they could own, but we will actually be able to help others as well.

Mr. BARTLETT. Commissioner, I think that is very eloquent testimony as to how you were able to accomplish it. I think you were correct in pursuing it; that lack of having to get approvals in triplicate form six different times at every level.

I suppose what I am trying to focus on is the importance of writing whatever Federal legislation we write so you can have that

freedom. You are telling us that ought to be the No. 1 priority in writing this.

Mr. GLEIDMAN. Yes.

Mr. BARTLETT. You know, perhaps there are some ways—I will pursue with others, or HUD—perhaps there are ways to alleviate the regulatory burden of community development so it can be more obviously responsive to this kind of program.

Mr. Martin, you said in your testimony that—I think you said you had to—in order to accomplish your program you had to do what we call in the Southwest—apply a degree of creativity to existing regulations. It seems to me that what this committee ought to be doing is to stop putting you in a position of having to apply creativity to existing regulations, but to deregulate or decontrol many of the regulations that don't serve you or your tenants very well.

Can you provide us with some examples of the kind of regulations, whether it is in rehab or modernization or performance funding, that you would have us—

Mr. MARTIN. Mr. Bartlett, the Community Development Block Grant is very clear in specifying those things, eligible items that can be carried out under the program and those that cannot. We were very concerned in San Antonio to find there were no moneys for new construction. There was rehabilitation moneys, money to acquire land and make land available for development; but that didn't address the problem of housing construction.

So we, after a great deal of study, came up with a concept—it was tried first in San Antonio—using the relocation grant, as I said, as a means of doing it. It was such an uproar, as far as the controlling of HUD organizations were concerned, that we were audited by GAO coming down and saying, "You can't do this; it is in conflict." We showed them the direct relationship to the laws in relocation, and it is now in use throughout the country.

To answer your question, quite often there are things written into the bill, whether it is because of lack of understanding, application at the local level, or an attempt to keep misuse of the program from occurring, that do hamper local applications. The very thing we are talking about here, it covered all the things such as amenities, infrastructure. Yet, the one thing, of course, that we are talking about the neighborhood requires is places for people to live.

So you are quite right. I think if you keep in mind as you draft any kind of legislation that there are no two cities alike—where in New York they deal with tenants and very heavy density in the sense of their housing for the most part, we deal in what we call rowhousing in Texas, which you are familiar with, small single-family shacks. And that kind of legislation needs to be taken into consideration.

Mr. BARTLETT. You would urge us to restore a fuller measure of local control?

Mr. MARTIN. Yes, sir, I would.

Mr. BARTLETT. Thank you, Mr. Chairman.

Mr. ROBBINS. I would like to comment briefly.

Ideally, the Federal Government should have the same first mortgage money available, second mortgage money available, at the same rate as the city of New York does. We have the same of

properties we are going to close, and they send—we certify to that, and they give us a check to pay out when we close.

The problems are that you have developed systems for controlling Federal funds, no doubt, systems for controlling city funds. We have worked with the city now; know how to do it. You might consider the possibility of allowing—having the Federal Government depend upon the procedures that exist within the cities before making the funds available. That is not—and then keep it out of it, treat it as a banking operation, and possibly keep it out—

Mr. BARTLETT. You are suggesting we take the revolutionary step of deciding we are going to be a second-lien holder. Well, we will trust the first lien holder to check the paperwork.

Mr. ROBBINS. I think that is a fairly good way to put it, yes, indeed.

Mr. BARTLETT. I think it is a terribly good and beneficial revolution if we—do you know right off if this bill, for example, the way it is constructed now, would it trigger in the prevailing wage rate for constructing these houses under Davis-Bacon? I realize that is a sacred cow; no one wants to talk about it. But I will just ask.

Mr. ROBBINS. I believe the bill has to speak for itself on that. I think local conditions ought to decide what rates are. They ought to be what is required in that area. You cannot, in my opinion, promote single-family housing in a straitjacket. It has got to be done the way it is possible to do it in that area.

Mr. BARTLETT. Do you think the bill should require Davis-Bacon contracts, or should not?

Mr. ROBBINS. Personally?

Mr. BARTLETT. Yes, sir.

Mr. ROBBINS. My answer is no.

Mr. BARTLETT. It should not?

Mr. ROBBINS. Should not.

Mr. BARTLETT. Thank you, Mr. Chairman.

Chairman GONZALEZ. Mr. Schumer.

Mr. SCHUMER. I just have two quick questions. I didn't want to ask too many questions today, as somebody who has dealt with you folks a lot.

First, do you see the present legislation imposing any Federal impediments of the kind Mr. Bartlett talked about? Anybody?

Mr. ROBBINS. No. I think the bill has been very carefully drafted and that, within the jurisdiction of the Secretary, he could decide to do exactly what I have suggested could be done.

Mr. SCHUMER. Second question I had was in reference to CDBG. You are all here advocating passage of this bill. Obviously, CDBG funds are around still. They haven't been proposed to be eliminated like other funds.

Why is this bill necessary? Why don't we just use CDBG funds? I mean, I have an answer but maybe Mr. Gleidman would like to address that issue.

Mr. GLEIDMAN. Sure.

Well, I think the basic reason, Chuck, and the reason we didn't look toward CDBG funds at all for this program, is that the Community Development Block Grant Program has shrunk dramatically over the last 4½ years. And so leaving aside inflation, leaving aside all the additional needs and tools we now use it for, the city's

block grant funds have gone down around 25 percent already before any cuts come across this year.

So we have had to eliminate many of the activities we have been involved in before. We understand this year, if the President's proposals were adopted, the loss to New York City would probably be another 20 percent or so of its block grant funds. To talk about using it increasingly for new concepts when there are so many basic neighborhood revitalization—you know, work that we are involved in now—would be meaningless. I would be robbing Peter to pay Paul; at the same time, you know, destroying neighborhoods in the process.

Mr. SCHUMER. Anyone else on that?

Mr. MARTIN. If I may give you some examples of what has occurred, of course, with the community block grant in San Antonio in the categorical programs to carry out such things as some plight elimination, the city was receiving \$40 million annually. The community development block grant, which would hold the city harmless—\$18 million for the same work. It has eroded to the point of approximately 46 percent less money and buying power.

We started with nine target areas with that original amount of money. We now have 28 target areas because of the need and demand of the citizens, with the same amount.

Mr. SCHUMER. I take it what you are saying is as good an idea as this is, given it is not an existing need such as rebuilding roads, if there weren't some separate funding for this program, in all likelihood most localities in this country it just wouldn't happen, because it would be squeezed out by other traditional needs that might not spend the dollars as wisely there and are going to be used, and no one has room for innovation these days.

Is that a fair statement?

Mr. MARTIN. Yes.

Mr. SCHUMER. All the witnesses seem to be shaking their heads yes.

Mr. ROBBINS. I would like to add, when I told Mayor Koch of my conversation with the Secretary, his immediate reaction was exactly what other speakers have said. In other words, he said it won't work because they are cutting us back now, and they will be cutting us back more, and we won't have the money. And he said if we don't have it, nobody else will have it anywhere else.

I think that is a fair statement. He was a little more colorful about it. What he said, I guess, was that is our money and we have to decide how we can best use it.

Mr. GLEIDMAN. The other aspect of it, Congressman, is the fact we try to use the CDBG funds as much as we can for the low-income population. Obviously, this program is broader than that. So, therefore, it would again face I think tough competition.

There are so many survival issues involved in housing people of low income that it is difficult to redirect those funds. So I think a separate pool is really essential.

Mr. SCHUMER. My final question, which I will ask of the next panel as well—but certainly in New York City and San Antonio—I was very interested to learn of the group in San Antonio. They are indigenous neighborhood groups that have the experience and strength and wherewithall to put a program like this together.

I said before one of the values of this program is really political, people working together on a project to benefit themselves and their community. Is it fair to say you think such groups exist in many, many other cities that could carry the burden? Because they do have to. The Fed can't, though it would provide the subsidy to get you over the top.

Mr. GECAN. We know at least 15 other cities that can do this, because we have East Brooklyn churches type organizations there, other organizations. They are doing major things right now; succeeding in other things right now and would be in a position to take advantage of a Nehemiah approach.

Mr. SCHUMER. Do you think it might stimulate other groups in cities that do not now have them to form, or is that too idealistic?

Mr. GECAN. No; I think it provides the incentive for the right kind of organization.

Mr. ROBBINS. The bill is ideally drafted for that. That is exactly correct. It is in the bill. It will give just the right encouragement. Then it is up to all of us Americans to make sure it is done responsibly.

We are not going to be there in every case. That is the same problem we have in every government program.

Mr. SCHUMER. That is indeed the idea of the bill.

Mr. GECAN. It is not just an ownership concept in the terms of owning our own home, but in pride in the place in which you live. The people here today from Brooklyn, Maryland, California, Texas have a high degree of ownership over their communities. That is why they are here.

Mr. SCHUMER. Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you.

Mr. McKinney.

Mr. MCKINNEY. I will be very brief.

I apologize for the fact I have had to be in and out all morning, but I would like to follow Mr. Bartlett's idea for a while.

One of the things I want in this legislation is the fact that the community can build a house that is acceptable to the community and acceptable to the State financing organization and have the government accept it. In fact, in Connecticut it would be the Connecticut Housing Finance Authority, CHFA. If CHFA is willing to put the first mortgage money out, the Federal Government should be willing to go along with the second.

I live in this terrible fear that we end up with the Government saying they must be red brick, two stories high, 20 feet wide, with white shutters, such and such grade of plastic, and such and such a grade of fencing in the back. I have seen this.

I dedicated a housing project in 1976 that had gone through four Congressmen in my district before me, and taken 15 years to build. It was the ideal project. I got so irritated I decided I was going to check this thing out. Do you know, gentlemen, that that project had been on 380 different desks; its plans redrawn 4 or 5 times? By the time inflation took its toll, it was 30 percent smaller than it was meant to be.

I never understood why, in fact, you can't turn around and have the State financing authority certificate that this structure is in

fact so many square feet and lives up to the building code, and they have found it mortgageable. I never understood the bureaucracy.

I am doing one now—248 units of townhouses, to replace about 6 of the world's poorest highrises you have ever seen in your life. That is a State-Federal project. We are in our ninth year of fussing with this thing, and we just hit the shuffles. In the meantime, the tenants in the towers are going down, down, down. The elevators don't work; the water doesn't work; sewage leaks out.

All we are doing is looking at architectural renderings. I said, look, we decided 980 square feet per townhouse, code construction. Just do it.

I think that is the beauty of Nehemiah. Baltimore, Mr. Mitchell's city, is a perfect example. They have got one of the best mayors in the United States of America, frankly, next to my friend from New York. Baltimore is perfectly capable of deciding, yes, this building is acceptable to us and our citizens, and let's cut about 6 years out of this garbage.

Where would Mr. Levitt have gotten after World War II, as you say? I don't want to overemphasize the point. We will find the money. There is lots of money lying around in this HUD bill, and there are things we can do. But I want it kept somewhat on faith.

I spent most of my college career, Mr. Chairman, writing long treatises on how you could never trust a mayor. You had to have an authority for this and a commission for that. I should have had my brains blown out before I joined that crowd and got us into this position where every single thing has to be "i'd" and "t'd" and dotted, and so on.

I want one today to really take a housing project of medium size and cost out what the cost was of not only the delay and redtape, but shuffling of papers and so on—not to mention inflation or deterioration—and then get into the human scale. What happens to somebody who is in a neighborhood waiting for the change?

I think this program, Mr. Chairman, is excellent because not only does it give the community a chance—as we have discussed all day long—but it gives us a chance to do something. There are many of us that aren't going to live to see anything built, the way we take our time now.

Thank you.

Chairman GONZALEZ. Thank you.

One thing before you break up, that the record should reflect, because of Mr. Bartlett's allusion to redtape and the like of the Federal Government, and the statements by Mr. Robbins and Mr. Gleidman of quick payouts. We can write the law the best way possible. Obviously, Mr. Martin and other administrators throughout the country have been able to make very innovative use of CDBG moneys, despite whatever regulations.

But we must remember the mechanics of the actual paying out process which is not being governed or determined by the administrators at HUD, but rather by OMB. OMB is not about, under the present circumstances, going to provide quick payouts because they want to dribble the money out in the name of cutting down. So that is the main reason, sir.

We can talk all we want about FHA and all that, but when it comes to the mechanics of paying out, those are determined by OMB, particularly under this administration.

Mr. ROBBINS. May I suggest, Mr. Chairman, you consider providing that as a contractual obligation as a second mortgage, just as Mr. Bartlett suggested; that when you have a first mortgage and you have got—you are taking a subordinate position, you are taking a second mortgage position, it goes with the first. I don't see too much trouble with that.

Mr. BARTLETT. If the chairman would yield.

Chairman GONZALEZ. That is true; you can do it, a third layer. But you still must remember that whether you get paid immediately or within a reasonable amount of time, so you can pay your contractor, it is not determined on that level. Rather, it is being determined by the OMB mechanics that are set; that whether you have a first, second, or third mortgage arrangement, and whether the Administrator of HUD has said absolutely we want you to go on, you are cleared and we authorize payment—they can say we authorize payment right here and now, but it is not going to be done until OMB determines the time and manner.

Mr. BARTLETT. If the Chair would yield briefly. I am not trying to prolong this, but the gentleman from New York and I were discussing earlier, what we can put in this bill. If in this bill we require minimum HUD property standards be set, well then you are going to add to your costs and you are going to add to your time. It is not the fault of OMB or the administration; it would be the fault of this committee.

So I think the gentleman, the Chairman, is correct; that there are administrative snafus and time delays and such. But I think this Congress ought to write the statute the way we intended, which is to eliminate that.

Mr. SCHUMER. If the gentleman would yield.

I mean, I am certainly open to suggestion that we replace HUD property standards with local property standards and let the locality set them. We can certainly discuss ways of doing that.

Mr. BARTLETT. Thank you.

Mr. SCHUMER. That is hardly, as they say—what do they call it?—a show stopper.

Chairman GONZALEZ. Thank you very much, gentlemen.

Our next panel is: Ms. Helen Ayala, Communities Organized for Public Service, San Antonio, TX; Ms. Jan Wilbur, The Metropolitan Organization, Houston, TX; Mr. Gary Rodwell, The Build Organization, Baltimore, MD; and Ms. Grace Trejo, South Central Organizing Committee, Los Angeles, CA.

Ms. Ayala.

STATEMENT OF HELEN AYALA, PRESIDENT, COMMUNITIES ORGANIZED FOR PUBLIC SERVICE, SAN ANTONIO, TX

Ms. AYALA. Thank you, Mr. Chairman. I bring you greetings from San Antonio—and members of the subcommittee.

I am Helen Ayala, president of Communities Organized for Public Service—COPS. I represent 90,000 families in San Antonio. We are also affiliated with other organizations in Texas—TMO,

ACT in Fort Worth, El Paso in El Paso, Metropolitan Alliance in San Antonio, East Side Alliance, and also Valley Interfaith, organized in a four-county area in the valley, the Rio Grande.

In San Antonio, we have a 12-year history. That has been a history in success in assuring the public moneys spent are spent right. That means addressing the infrastructure of the inner cities.

As Mr. Martin has testified, we have worked at putting in programs, some of them concerning CDBG and revenue sharing. We have also been involved in the capital budget of the city of San Antonio. As an organization, we have been able to put over \$500 million into our communities because we believe the moneys that are there should be used for what they were intended. That means that we have practically rebuilt our communities, putting in streets, drainage, parks, libraries, and housing, which is critical to our communities.

Our families have invested in San Antonio. That means in any inner-city area in the Nation, the people who have been there, the inner-city communities are the ones that invested in the city, and it enables cities to grow. So there is a responsibility to the inner cities, and that is to continue supporting them and keeping them viable.

The COPS organization, in its 12-year history, has had a tremendous record. Last year in Texas, we were able to leverage changes in education by pursuing educational reform in terms of equitable financing. We are involved in issues that affect our families. We are organized based on Judeo-Christian values, which means our families are affected by issues, and we take after those issues.

The development of leadership is key to our organization. In the past 12 years, we have had over 40,000 leaders come to the COPS organization. We are not asking for handouts; we just want to ensure that the moneys there are used properly. And we are also about dignity and we are also about our faith.

The issues that have affected our families have been that of poor education. We have addressed that through the Texas Legislature. Also, the issue on housing is very key to our families.

I was involved personally in a youth retreat this summer. The questions to them were those questions on what affects your life. Several of the youth said, "If we could only stay in one place—we rent homes. I have never been able to build relationships with other friends because when I am just about getting started and settled in school we have to move. I have been in five different schools, and I am only a tenth grader."

Before I came, my organization, the leaders in the organization, entrusted to me: "You be sure and tell them what we need." We need housing so desperately. We want to be able to enjoy our families again.

In public housing, there are situations where if your chi 18
years old, they are asked to leave. Where do you 18:
old who wants to go to school but has to move out or t h
cause he is 18? There is a young woman who said, "I 1
to live anywhere else, but I have to rent. And I have 1 m
for many years." And I have known her for 35 years. 3
have been trying to buy a house, but now I can't even 8, "

It is a dream, as Congressman Gonzalez indicated. But now it is an unaffordable dream.

So I am here today representing the COPS organization, but also speaking for the Mexican-American community in Texas. There are areas in the valley that need housing. The valley has suffered tremendously; they have had double-digit unemployment. What hope do those people have? They certainly need housing. There are areas out there that are not even being serviced by water. There are problems in El Paso and in Houston, and Ms. Wilbur will address those.

We are here to address the Nehemiah plan, because we have seen it work. It works. So we are not here to propose "pie in the sky" sort of dreams. We are here with a concrete plan that has been devised by leaders in those communities. So, in Texas we have organizations in place who have a track record of responsibility, and we also have efforts in our own communities of putting moneys together from our churches.

The provincial from the Congregation of the Immaculate Heart of Mary is here today. The congregation has committed \$150,000 as seed money for COPS in San Antonio to build an equity fund, as these Brooklyn churches did. So we are here to support it. We need it. As an organization, we are willing to work for it.

Mr. Martin was here. We have worked with them in doing target housing areas. But that is piecemeal—and it is through block grant moneys, but it is not enough.

We invested in the city and in this country, and we want to continue to do that. But we shouldn't be X'd off the map and told "You don't exist." We do exist, and we have a lot to contribute.

Thank you very much.

Chairman GONZALEZ. Thank you very much. You have been modest in your presentation.

Some of the areas in which the land was first acquired some 16 years ago under the old urban renewal have now begun to blossom under UDAG, and the housing particularly in the project. Maybe we say 30 families does not mean much, but it means everything. Instead of just throwing them out, with the invaluable help of COPS that housing portion of that particular plan has worked out. But it took the grassroots level, which some of us 35, 40 years ago had almost given up the hope of happening—have been overjoyed to see it happen.

Also, the fact that great leaders like Archbishop Lucey and now Archbishop Patrick Flores have been so instrumental. Really at the beginning of COPS, the initial meeting, the Archbishop Lucey—may his soul rest in peace—was the one who announced the full support of the church. I think that the record ought to reflect that.

I know that Ms. Ayala was trying to be very brief, but in all fairness San Antonio has been very fortunate in having this kind of dedication on the part of just plain average citizens like herself.

Thank you very much for traveling all the way up here to be with us, Ms. Ayala.

Ms. AYALA. Thank you, Congressman.

We also need to recognize that you were very instrumental in that plan; in acquiring a UDAG. It is a model of what can be done. It is a mix of commercial and industrial development, but also a

housing component. That cause—that was the most dense area in San Antonio. There were over 500 people who were displaced. But they were placed through Mr. Martin's agency that he works for. And they weren't just thrown out—they were placed in other areas, and a lot of them will be returning into brand-new homes that were made possible through that UDAG.

Chairman GONZALEZ. Thank you very much.

We next recognize Ms. Jan Wilbur, the Metropolitan Organization of Houston, TX.

Thank you very much, Ms. Wilbur, for being with us.

STATEMENT OF JAN WILBUR, PRESIDENT, THE METROPOLITAN ORGANIZATION, HOUSTON, TX

Ms. WILBUR. Thank you very much, Congressman.

I am Jan Wilbur, president of The Metropolitan Organization, TMO, in Houston. TMO is a sister organization to the groups represented here, as well as other groups not represented here today. And we are pleased to be here today.

TMO and Houston—I think I would like to focus on some of the ways that we are different from the Nehemiah project and some of the ways that have been talked about today. But before that, I would like to kind of give you a flavor. I know you, Congressman, and Congressman Bartlett probably know Houston. But for some of the others, perhaps a little lesson in geography, if you will.

The size of Houston, we could put Cleveland, Pittsburgh, Washington, DC, Baltimore within the city limits of Houston and still have room leftover for Providence, Rhode Island and a few other cities, which means that rather than having an inner city we have several inner cities. We have pockets that can benefit from a plan like the Nehemiah plan.

The other thing I think that is important probably to keep in mind is that, just as poverty is no respecter of rights, so the need for housing is no respecter of rights. TMO, for example, is a tri-group organization. We have churches in predominantly black areas of the city, predominantly Hispanic and in white areas. We have churches in the inner city in relatively low income. We have churches in moderate income areas.

What we are hearing in Houston is that there is a pent-up demand for the type of housing we are talking about, for affordable housing. Now this is in spite of the fact that we also hear that the housing market in Houston is soft; we overbuilt single-family and multifamily dwellings. But the problem is, the reason it is soft, the reason those homes are still unsold is because nobody can afford to buy them. The people that are in the market to buy the homes can't afford to buy the ones that are on the market.

We have, since we are not experts in building and so forth, put together an advisory group. We are starting—about 6 months ago, we started replicating the Nehemiah plan for Houston. That meant raising money, putting together our own versions of I.D. Robbins—although Mr. Robbins said he would come down and help us, as well—but to begin to see how we can provide that kind of housing in Houston. And the builders tell us that really in Houston, the

builders cannot build the kind of homes for the price we are talking about without the kinds of things we are able to do.

Raising the money—we have raised over \$800,000 toward our goal of \$3 million, and to use as the interim financing. Somebody mentioned they didn't know whether churches across the country would do this. I can tell you, churches and religious bodies in Houston, Texas are willing to do this. We have raised this money. We are looking for property to purchase. We don't have the vacant land that we can get at no cost.

We are having to look at where can we find some land that we can factor in the cost into a house that can be purchased by a family with \$18,000 to \$24,000 a year income? It is difficult putting those pieces together, and a plan like the Nehemiah Housing Opportunity Act would give us a much needed component to go into providing this kind of housing in Houston.

The other thing I think is—this has been mentioned before but I want to stress it again—is that this Nehemiah Housing Opportunity Act is a creative, innovative and I think typically American approach to solving a problem. It makes the best—it would make the best use of a partnership between the private initiative and private dollars; and government responsibility, ability to respond, again, in dollars as well as otherwise.

For these reasons, we would like to commend Congressman Schumer and Congressman McKinney for introducing this bill; this committee and Mr. Gonzalez for holding these hearings; and our own Congressman Mickey Leland for cosponsoring the bill. We would urge passage and would do anything we can to help get the bill passed.

Thank you very much.

Chairman GONZALEZ. Thank you, Ms. Wilbur.

We next hear from Mr. Gary Rodwell from The Build Organization of nearby Baltimore.

STATEMENT OF GARY RODWELL, PRESIDENT, THE BUILD ORGANIZATION, BALTIMORE, MD

Mr. RODWELL. Thank you, Mr. Chairman.

Members of the House subcommittee, members of EBC and our other sister organizations from around the country, members of the media, ladies and gentlemen: My name is Gary Rodwell and I am president of Build, located in Baltimore, MD.

The story that I bring you from Baltimore is a familiar story to you. It is a story that you have heard here before this morning because it is the story of most urban areas. The Baltimore story is about a city that has the dubious distinction of being one of the poorest major cities. It is a story of 48,000 people waiting on a list for public housing, and about 6,000 vacant homes, homes that are falling into disrepair so quickly that as soon as we rehabilitate one, another becomes unlivable.

It is a story in which our vision of housing is a bit different, because we don't have as much vacant land as New York. And, as you have heard here before this morning, we will have to do a mix of rehabilitating and new construction to develop our dream of

2,500 homes. Nevertheless, it is a story that grows out of the same type of cynicism that faces poor people throughout the country.

But as I am sure you see by the presentations here today, we don't come to you—even though the best political judgment has told us it is a waste of time to try to get this bill passed and that no one in power really cares about people working and owning a home and that our pleas to have this bill passed will fall on deaf ears, we won't give in to that cynicism because it is not our way.

EBC certainly didn't. If they had listened to all of the negative voices in New York telling them that their dream was unreal, they couldn't be building 5,000 homes today. If we at Build had listened to the gloom forecasters in Baltimore, we couldn't have gotten mortgages for our families and better school supplies for our children and moved our ideas as far as we have. For we are people of vision.

We don't come here today looking at you as Republicans or Democrats. We come here looking at you people as people of good will. In this room is the best of what our country has to offer.

Churches of mixed racial background, builders who will put their time and effort to see that this dream will come true, and people of good will, we are people that are organized around ideals and ideas. In this case, the ideal is the American ideal that says if you work hard, you can own a home and raise your family in a decent community. The idea in this case is the Nehemiah plan, a simple but pragmatic plan which combines private sector money with public sector support. And the idea has worked.

This is our vision. This is the way we organize. We have prevailed before, and we shall continue to prevail by working with people of good will who, when presented with a plan, will do the right thing.

So we challenge you today to join the vision, to take the opportunity to help us turn around the inner cities, to take the opportunity to make the dream of Nehemiah become a reality across the country. We think you will join us.

Thank you.

Mr. MITCHELL. Mr. Chairman?

Chairman GONZALEZ. Thank you very much for a most eloquent statement.

I apologize to my colleague, Representative Mitchell, because what I usually do when a Member is present, I usually have them introduce a constituent or neighbor. In this case, I apologize. But I request that you reintroduce Mr. Rodwell.

Mr. MITCHELL. No, indeed. I have no intention of doing that. I just wanted to indicate we are going to have a Nehemiah plan in Baltimore.

Mr. RODWELL. Oh, yes, we are.

Mr. MITCHELL. Not so much because of me, but because of Bill. What time were you in my office yesterday morning?

Mr. RODWELL. 9:30.

Mr. MITCHELL. Indefatigable workers. Even if I didn't want Nehemiah, they would work me to death to get it. So I want to publicly thank Bill for the magnificent contribution made to the city—thorn in the side of some people, but that is the way you think done. Not universally loved by all those in Baltimore, but I think

getting things done. And we will celebrate the first Nehemiah house together.

Mr. RODWELL. I would like to take a moment to publicly thank Congressman Mitchell for his support, because he has been there for us since the genesis of Build, and is certainly a Build member.

Mr. MITCHELL. Thank you.

Chairman GONZALEZ. Thank you very much.

We have one more witness. My paper shows your last name as T-r-e-j-o, but the little card in front of you has T-r-e-g-o.

Ms. TREJO. It is j-o on this side, and it is correct.

Chairman GONZALEZ. I don't know why they did that to me.

See what I mean?

But I was not going to introduce you as Trego.

We have Ms. Grace Trejo from South Central Organizing Committee of Los Angeles, CA. Thank you very much for coming across the continent to be with us.

STATEMENT OF GRACE TREJO, SOUTH CENTRAL ORGANIZING COMMITTEE, LOS ANGELES, CA

Ms. TREJO. Thank you, Mr. Chairman, honorable members of the committee, and members of EBC. I consider this a great opportunity to have traveled all these miles to come to Washington.

I am here to represent South Central and UNO, our sister organization in east Los Angeles. Together these organizations represent approximately 128 family units, primarily blacks and Hispanics, in the inner city of Los Angeles. These two organizations have been very, very involved in changing the face of Los Angeles.

We have looked at the Nehemiah plan as an answer to the urgency and problem that exists in Los Angeles. Presently, the average price of a home is \$140,000. As a result, thousands of people are being priced out of home ownership. Each time the price of homes go up \$10,000, approximately 229 families are unable to acquire a home.

I am sure you are all aware that the county of Los Angeles is quickly becoming the new Ellis Island. The only difference is that there is no dream on the part of these newcomers in owning a home. Housing is of such urgent need that the vacancy rate of apartment units is a little bit above 1 percent. In many cases, we have more than four members of a family living in one-bedroom apartments. We have hard-working families who believe that they will never own a home. That is why, in looking at the Nehemiah plan, we are so excited that we are here to say that this is an answer to a long-term dream.

In the city of Los Angeles, you have two organizations with a track record and existing relationship with our Mayor Tom Bradley. We are working on an economic development program which directly addresses housing as our first priority. We have subsidized housing and we have existing programs, but they are far from adequate at this present time in addressing the overcrowding and the lack of ownership that exists in our community. And we are not as far advanced as New York and Texas, but I can promise you that with the excitement and energy we intend to generate, we are not too far from doing what it takes.

I urge the Congress in its wisdom to enact the Nehemiah opportunity plan and fulfill the dreams of thousands of families in the State of California.

Thank you.

Chairman GONZALEZ. Well, thank you very much, Ms. Trejo.

I will yield to Mr. Schumer for any questions or statement he may wish to make at this point.

Let me explain this: Through Mr. Schumer's great leadership on this subcommittee, we were able to hear of such a thing as the Nehemiah plan. On his invitation, we went to the jurisdiction in Brooklyn. He offered it. And we were honored to be able to incorporate it in what we call H.R. 1, which is the basic authorization housing and community development bill.

Mr. Schumer.

Mr. SCHUMER. Thank you, Mr. Chairman.

At the risk of reiterating, without your concern and leadership on this issue we wouldn't be here today. So I thank you for always being receptive to new ideas and to the concept that Government is there to help people who need the help.

I first thank all the witnesses for coming from all different parts of this great country of ours to be here today. You have helped answer a question that I had. As you know, I have put a lot of time and energy into this bill.

One of the questions is, can you find the dynamism that I have found in East Brooklyn churches across the country? And you have answered that with a yes. But let me ask you just a question.

What do you think is the greatest stumbling block—not so much in terms of housing itself, which in this committee we hear so much about—but in terms of keeping a strong and vital community organization which in turn makes a neighborhood a good neighborhood and gives people a sense of belonging and of hope together?

What is the hardest thing keeping your organization together and keeping it growing and thriving? What is the biggest barrier?

This is to any of the witnesses who would like to answer that, or all of the witnesses.

Ms. Trejo.

Ms. TREJO. I would say that ownership of a community is the first criterion for having a vital organization; people who want to invest and remain within that community. We find that in the city of Los Angeles people are there, people who have lived, for example, in Watts for years. That particular community is so obliterated that something has to happen.

But, first of all, we need to stabilize, analyze and provide a home, roots for these people. And then we will have the dream we envision today.

Ms. AYALA. I think one of the major stumbling blocks is, you know, we believe what we can do. We know from the communities that we are very capable of doing whatever we set our minds to doing. It is the other people who are not there who don't trust for us to know what we want and what we can do.

Mr. SCHUMER. Mr. Rodwell.

Mr. RODWELL. I would say that in Baltimore—and I am sure it is not unique to any of the other projects throughout the country—that the greatest stumbling block that we find is a stumbling block

that is not just unique to the housing situation, but that is the barrier that people in power set up in front of us. This housing program, although it is about people getting and owning a house, is about more than just housing. It is about building a community. It is about restabilizing and undergirding our family values.

People in power understand that this is more than just a housing project. So they want to stop it at its inception, just like they want to stop any other number of things we would be involved in that would contribute to our empowerment process, because then it means that some people who may not look like you or who may not talk exactly like you have the opportunity to sit at the table and make decisions along with you that affect their lives.

Mr. SCHUMER. Thank you.

Would you want to make a comment, Ms. Wilbur?

Ms. WILBUR. I would just add to that, I think what all three of the people—they have named an issue, a part of it. I would just like to add to that, you know, in addition to the ownership of the community is the feeling a part of it, and a feeling that—which can be built—that you have a relationship with the other people in the community as well as a commitment to the community, not only to the physical but to the people there. I think without that, then the physician can deteriorate to the point where it is no longer a community.

Mr. SCHUMER. I think that sums it all up, Mr. Chairman.

Chairman GONZALEZ. Yes.

I wanted to say that earlier this week we had witnesses also from diverse points speaking about the Community Reinvestment Act and the companion bill which was the Depository Disclosure Act. I just wish they could be here, and for you to have heard them, because that is exactly what Ms. Ayala is talking about.

What they were able to do through these two acts was to get the bankers in that community that weren't serving the community at all. Why? Because they feared it. They feared the people. Well, these leaders, through these two acts, were able to go and say, "Hey, look, you are chartered to serve a public need and convenience. Now we want to know why you are not investing in this community, because we believe it is the most stable investment you can make." And they developed plans for it whereby they were able to have allocation of credit. Not one of those has soured.

But the very day before they testified, we heard from the other side. We heard from the big mortgage banker—insuring people. We heard from the bankers. They were saying, hey, we think that that part of your H.R. 1 where you are asking for a permanent extension of the Disclosure Act ought to be done away with. But every one of these people said if we didn't have that, we couldn't have others; the Community Reinvestment Program would be meaningless.

They didn't say do away with the Community Reinvestment Program, because they had no statistics to show that any investment made by any of the financial institutions had gone sour.

So you are right. Ms. Ayala has hit the nail on the head, and so has Mr. Rodwell, that if the people in power—whether it is political power, social power or money power—will just have a little bit of faith in their own neighborhoods—and that doesn't come until

you get to know them—then your problems, though they are hard still, can be overcome.

The question Mr. Schumer was asking was very interesting, because he was essentially saying, hey, what has been your biggest obstacle in staying together, organizing, having your initial successes, and then still staying together and keeping on? Well, we know that the people who need the help the most—that is, say in the case of labor, those that need the labor organization the most—are the most difficult to organize.

In these areas, we are expecting people who are beset with the very problem of eking out an existence to have the sophisticated knowledge and the time and even the peace of mind to work out intricate organizational things. This is the tremendous unwritten value that I see in organizations such as COPS, such as the Houston effort, and the Baltimore, Los Angeles efforts.

I think we can say God speed in all your endeavors. And we thank you. Because presenting yourself here, helping us, you make it possible for us to in turn try to reflect some response to your needs from this level.

I would be remiss, before we broke up this morning, not to introduce the staff director, Mr. McMurray. None of us is really any much better, any much worse, than what staffs we have available. Mr. McMurray has been one of the big leaders. He puts these hearings together. And, of course, we have others, such as our legal counsel who works out the intricacies, and just how we can phrase what we want to put into a statute, Ms. Diane Dorius. We have other professional staffs like Bonnie Caldwell; and a young man from San Antonio that I always introduce, Valera, but his name is Valencia.

I am going to ask one favor and your indulgence. I would like for Mr. Torres or Mrs. Torres to please introduce those lovely children that have been so wonderful.

We want to have them on the record, if you will please introduce them by name and their age and what grade they are in in school.

We have another young man over there. I don't want to introduce him as a Torres, but I believe it is Ms. Goffe's son. We would like for you to do the same thing.

I think you have another one. There, OK.

Mr. TORRES. I have the pleasure to introduce our children. I will let them speak for themselves.

Miss CLARA TORRES. My name is Clara Torres and I go to school, P.S. 139. I am in second grade. I am 7 years—I am 8 years old.

Miss KRISTIN TORRES. My name is Kristin Torres. I am in P.S. 139 Annex in sixth grade, and I am 12 years old.

Master TORRES. My name is Edward Torres. I am in school P.S. 139. I am age 8 and in fourth grade.

Master GOFFE. My name is Joseph Goffe. I am 8 years of age and I am in P.S. 174. I am in third grade.

Master GOFFE. My name is Peter Goffe and I am in P.S. 13. I am 9 years old and I am in fourth grade.

Master GOFFE. My name is Armel Goffe. I am 10 years old. I am in P.S. 174 and I am in fifth grade.

Chairman GONZALEZ. Chuck, you guys better look out here.

Mr. SCHUMER. Glad the age is 18.

Chairman GONZALEZ. Yes. Major Owens.

Well, unless the witnesses have an additional statement they wish to make, or some question to direct to us, we will adjourn until 2 p.m. instead of 1:30, 2 p.m. this afternoon in this hearing room.

[Whereupon, at 12:55 p.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

AFTERNOON SESSION

Chairman GONZALEZ. The subcommittee will please come to order.

This afternoon the subcommittee will be hearing from a very distinguished panel of academics and scholars who will present their views on the Federal role in housing.

As I have mentioned throughout the last 4 weeks of our subcommittee hearings, federally assisted housing programs, such as section 8 existing, section 8 moderate rehabilitation, public housing and other assisted housing programs are undergoing a most vitriolic assault on their existence by this administration.

The Reagan Administration plans to zero out all assisted housing programs in fiscal year 1986. As the Secretary put it yesterday, they are seeking a moratorium for 2 years, while my bill H.R. 1, the Housing Act of 1985, attempts to provide a glimmer, and I say that advisedly, of hope.

I offer these bills as a personal compromise because having gone to hearings throughout the country and seeing what is correctly assessed need emerging from the country, throughout, what I have in H.R. 1 would be minimal.

But I offer it, and even in offering it this way it is being attacked not on the basis of merit or demerit, but on the basis of budgetary constraint.

As I said, the administration, as of yesterday, officially through the Secretary of HUD, has stated its enthusiasm to not reaffirm these programs, certainly not fund, and provide a moratorium of 2 years.

Although the levels of budget authority and assisted units are very modest in H.R. 1, they do strike a sharp contrast with the President's presentation because obviously anything above zero is something.

I have called this distinguished panel together today to comment on H.R. 1, the Housing Act of 1985, the proposal to sell off public housing stock and to ask for their general views on federally assisted housing programs.

I want to say to the panel that we are very grateful that you responded and are here, and that some of the members of the subcommittee will be coming in.

Many are not here but everybody will have a copy of your testimony and you may have some questions submitted to you in writing as soon as they have read your testimony. If there is no objection from the panel it is our intention to recognize the panel in the order we have them listed here and in the order that I wanted to introduce.

Dr. Chester Hartman, a fellow in the Institute for Policy Studies here in Washington, DC.

Unless there is some reason any other member must leave, as quickly as possible then I will recognize Dr. Hartman.

**STATEMENT OF CHESTER HARTMAN, FELLOW, INSTITUTE FOR
POLICY STUDIES**

Mr. HARTMAN. Thank you, Mr. Chairman.

I will read a short statement. There is an attachment which is part of it, hopefully will be made part of the record to this.

Chairman GONZALEZ. Let me say at the outset that you may proceed as you see best, but your statement which has been presented to us and I wanted to thank you for giving it to us in ample time to read it and try to digest it, will be in the record as you have prepared it.

Mr. HARTMAN. Thank you, sir.

Given the administration's clear desires to virtually gut the entire Federal low-income housing effort, as you have just mentioned, it is perhaps strange for someone who strongly advocates bigger and better government housing programs for the poor to testify in strong opposition to the bill before this subcommittee today, which attempts to continue and restore traditional forms and levels of housing aid.

Yet I feel the time is appropriate to analyze and criticize traditional approaches to housing the poor, from the left as it were, because even if this Congress could enact H.R. 1, that legislation would not come close to meeting the Nation's housing needs, and in fact would continue some dangerous illusions about the nature of our housing problems and how to attack them.

The housing crisis of the 1980's and likely beyond, is a crisis of affordability. Families unable to meet their mortgage payments and rent bills, or doing so only by neglecting other basic needs, homeownership passing out of reach of ever larger numbers of American households; millions being displaced from their homes and neighborhoods each year by the disparate market forces of revitalization and undermaintenance, increased overcrowding as people strive to keep a roof over their heads, no matter how small that roof must be; millions still living in slum homes and slum neighborhoods; heating and utility bills and property taxes going unpaid, and the ultimate housing problem, the 2 to 3 million Americans who nightly camp out in shelters, bus stations, cars and doorways.

I won't bore or tax you with supporting statistics, as I am sure you are as aware of them as I, and they are readily available from numerous Government and private sources.

Now what is the crisis of affordability, analytically? At the simplest level, it is the growing gap between what housing costs and what people can afford.

That that gap is growing is indisputable. All of our statistics relating housing prices and rents to incomes show clearly and more people are having to pay ever higher proportions of their income to the landlord or bank to house themselves and their families.

And it can only get worse as the various elements that go to make up housing costs, land prices, construction, purchase and repair mortgages, materials and labor, property taxes, insurance, utilities, move up inexorably faster than the wages and salaries of U.S. households.

Historically we have managed that conflict in part through institutional changes such as deposit insurance, FHA and VA mortgage insurance, creation of the long-term level payment low downpayment mortgages, creation of a secondary mortgage market, in part through direct Government subsidy programs to care for the needs of those whom the market, even aided by government props, would not serve.

But those institutional changes, while they sufficed to get us through the 1930's, 1940's, 1950's, 1960's, and part of the 1970's, are now falling apart.

The new alternative mortgage instruments shift the burden of inflation to the housing consumer and create enormous insecurity of tenure and family budget crises. The deregulation of banking will surely lead to less and more expensive mortgage funds.

The Government programs that merely subsidize the market costs of housing, whether section 8 rent subsidies, section 235- and 236-type mortgage interest subsidies, or housing allowances, are too expensive, and therefore, are funded to serve only a very limited number of needy households.

These subsidies do nothing to change the housing cost structure. They merely throw in ever larger gap funds to cover the difference between what housing costs and what people can afford. And since that gap and the number of people the market cannot serve keep growing, it is like throwing money into a bottomless pit.

In theory, the housing cost income gap can be overcome either by increasing incomes or by lowering housing costs. To provide everyone with an income sufficient to pay rent or purchase a decent place to live on the private market is theoretically possible, of course, we are a country rich enough to do just that, but such massive income redistribution is hardly likely.

What then might be done to lower housing costs to the point where the vast proportion of Americans could afford decent housing at current income levels? There are precious few savings to be achieved via the usual nostrums, such as greater industrialization of the building process and more uniform, less stringent codes, and the negative effects of such moves might well outweigh their minuscule benefits.

The only way to lower housing costs massively is to radically alter the central elements of the housing cost picture; namely, the cost of credit, and the costs associated with profit maximization on housing transaction. These two are closely interrelated.

The overwhelming majority of housing in this country is built and purchased with credit. The residential mortgage debt is the largest single component of outstanding debt in the U.S. economy, in 1980 it amounted to nearly one-fourth of all our debt and one-third of all private debt.

Looked at another way, total residential mortgage debt in 1980 amounted to 41 percent of gross national product and 60 percent of disposable personal income.

Repaying that debt takes about two out of every three housing consumption dollars, from homeowners in the form of direct repayments to the lender, from tenants embedded in the rent check.

And in almost all cases debt repayment is a permanent and usually growing consumption cost. Each time a residential property is resold, it generally commands a higher price, with a larger mortgage debt, often at a higher interest rate.

We could cut housing costs to the consumer drastically, on the average by well over half, by eliminating mortgage debt. And that in turn could be done by building housing not through the credit mechanism but through outright Government grants, a one-time capital cost, with no debt repayment ever. Occupants would have only to pay ongoing costs for maintenance, utilities, insurance, property taxes, and similar charges.

What are the implications of such a system? It clearly would cost a lot at first, but in the long run the society's housing costs would be far lower. We already have some interesting and instructive examples of housing built either without credit or with only one-time repayment of the borrowed capital costs, rather than credit being a permanent and renewable-ascending cost.

One interesting and little recognized example is military housing, nearly a half million units of family housing built and maintained entirely via congressional appropriations, with no borrowing or borrowing costs attached to the housing.

There are also examples from Farmers Home, HoDAG. The 1.3 million units of public housing represent an example of housing built via one-time use of credit, in this case annual Federal appropriations to retire local housing authority bonds.

Once those bonds are repaid, there are no longer debt repayment costs, and beyond that the system does not require residents to pay off these borrowed capital costs as part of their rents.

While the public housing program, as we all know, has had its share of problems, this basic financing feature of the program has ensured that the units remain in the low-rent stock.

A second implication is that for units built with capital grants instead of credit, buying and selling housing for a profit would of course be prohibited. And therein lies another key to massively lowering housing costs, ending profit maximization in the buying and selling of housing.

Virtually all housing in the United States is privately owned, and the owners, whether of single-family homes, condominiums or multifamily buildings, try to sell or rent their units for the maximum the market will bear.

This, of course, drives housing costs up for everyone. Lots of profits are made, but mostly made by speculators, real estate agents, lenders, and others in the housing business. The average consumer or homeowner may chalk up a big capital gain upon selling his home, but he has to plunge right back into that same inflated housing market to buy or rent a new place to live.

And it is not at all clear that he wouldn't do just as well if he deposited his downpayment and monthly debt repayment costs in a money market account. Housing costs can be dramatically lowered by ending the treatment of housing as a commodity to be built, bought, sold and operated with the aim of profit maximization.

Again, there are instructive and import examples all over the United States of housing that is owned and operated by nonprofit and public entities, with the aim not of profit maximization but of providing the best possible housing at the lowest possible cost.

In short, a program to decommodify housing, if I may use a fancy phrase, to end reliance on credit and the vast costs associated with that reliance, and to expand not-for-profit ownership of housing, the existing stock as well as new units, is the only way out of the Nation's affordability crisis.

Such a program can drastically lower the costs of housing, bringing it within the affordability range of the vast majority of Americans. For those with incomes too low to afford even ongoing maintenance costs, some form of housing allowance can then cover the gap.

But, unlike the allowances now being proposed and tried, those allowances would be small and would not go into the bottomless pit of profit-taking by landlords, developers, lenders, brokers and others in the housing business.

A program of the sort I am describing here in the most general terms has actually been worked out in detail by a group of housing experts from across the country brought together by the Institute for Policy Studies. It is entitled the National Comprehensive Housing Program, which I have attached to my testimony, and consists of four principal components.

First is the National Housing Production and Finance Act, for the purpose of building new "social housing," a term widely used in Europe to designate housing that is not in the profit sector, and rehabilitate existing market housing acquired for social ownership.

The second element is the National Housing Conversion Act, for the purpose of converting existing housing to social ownership.

Third is the National Home Protection and Improvement Act, for the purpose of upgrading and protecting the existing socially owned housing stock; and next, the National Private Tenant Protection Act, for the purpose of guaranteeing residential security in private rental housing.

The act also contains cost estimates at various levels of implementation. The concrete program our group offers in these four acts provides a radical alternative to the current U.S. housing system, substituting a system that puts as its first priority the right of all Americans to decent affordable housing for the current system, which has as its first priority the right to maximize profits from housing.

It is an alternative system that markedly increases security of tenure for everyone, owners and renters, by removing the threat of foreclosure and eviction, a system that allows people to choose which housing system best meets their needs.

Among the immediate opportunities for applying our proposed system are the 6 percent of all mortgage holders now 30 days or more delinquent in their payments and thus facing the immediate threat of foreclosure, eviction, and loss of equity.

Our proposal calls for giving such families the option of having a nonprofit or public agency take over their mortgage, while the family continues to live in their home as long as they wish, making monthly payments according to their income, and once the mort-

gage is paid off the home would remain permanently in the non-profit social sector, available to other households with no debt repayments as part of the ongoing costs.

In sum, the traditional liberal approaches to solving the Nation's housing needs are wholly inadequate, both in quantity and concept. They fail to recognize the structural nature of the affordability crisis and its causes.

And they continue to rely primarily on Government aids to the private, profit-oriented sector. Such an approach can never succeed and will always wind up costing far more than we are willing and ought to pay in Government subsidies.

Government housing subsidies will be needed so long as people's incomes are insufficient to pay the cost of obtaining decent housing, and if we are serious about Congress national housing goal of a decent home and suitable living environment for every American family, those subsidies must be available to all who need them.

But only through restructuring the housing system along the lines I have discussed will attainment of the national housing goal be financially feasible.

H.R. 1 doesn't do this, and the Reagan administration's budget certainly doesn't do this. As the housing crisis worsens, as surely it must, we will inexorably turn to new approaches. The specific proposals attached to my testimony embody such an approach, and I urge you to study them carefully.

Chairman GONZALEZ. Thank you very much. We will come back. [Mr. Hartman submitted a prepared statement, with attachment, and the following articles from the Journal of Urban Affairs for inclusion in the record; "Another Look at Housing Allowances: a Response to Chester Hartman," by Philip Abrams; and two of his own articles, "Rejoinder to 'Another Look at Housing Allowances'", and "Housing Allowances: A Critical Look":]

Institute for Policy Studies

TESTIMONY OF CHESTER HARTMAN, FELLOW, INSTITUTE FOR
POLICY STUDIES, HEARINGS ON H.R. 1, BEFORE THE SUB-
COMMITTEE ON HOUSING, U.S. HOUSE OF REPRESENTATIVES
MARCH 14, 1985

Given the Administration's clear desires to virtually gut the entire federal low-income housing effort, it is perhaps strange for someone ^{like myself} who strongly advocates bigger and better government housing programs for the poor to testify in strong opposition to the bill before this Subcommittee today, which attempts to continue and restore traditional forms and levels of housing aid. Yet I feel the time is appropriate to analyze and criticize traditional approaches to housing the poor, from the left as it were, because even if this Congress could enact H.R. 1, that legislation would not come close to meeting the nation's housing needs, and in fact would continue some dangerous illusions about the nature of our housing problems and how to attack them.

The housing crisis of the 1980s --and likely beyond-- is a crisis of affordability: families unable to meet their mortgage payments and rent bills, or doing so only by neglecting other basic needs; homeownership passing out of reach of ever larger numbers of American households; millions being displaced from their homes and neighborhoods each year by the disparate market forces of revitalization and undermaintenance; increased overcrowding as people strive to keep a roof over their heads, no matter how small that roof must be; millions still living in slum homes and slum neighborhoods; heating and utility bills and property taxes going unpaid; and the ultimate

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Now what is the crisis of affordability, analytically? At the simplest level, it is the growing gap between what housing costs and what people can afford. That that gap is growing is indisputable. All of our statistics relating housing prices and rents to incomes show clearly that more and more people are having to pay ever higher proportions of their income to the landlord or bank to house themselves and their families. And it can only get worse as the various elements that go to make up housing costs -- land prices, construction, purchase and repair mortgages, materials and labor, property taxes, insurance, utilities -- move up inexorably faster than the wages and salaries of US households.

In the past, we have managed that conflict in part through institutional changes such as deposit insurance, FHA and VA mortgage insurance, creation of long-term level payment low downpayment mortgages, creation of a secondary mortgage market, in part through direct government subsidy programs to care for the needs of those whom the market, even aided by government props, would not serve. But those institutional changes, while they sufficed to get us through the 1930s, 40s, 50s, 60s, and part of the 70s, are now falling apart. The new alternative mortgage instruments shift the burden of inflation to the housing consumer and create enormous insecurity of tenure and family budget crises. The deregulation of banking will surely lead to less and more expensive mortgage funds. The government programs that merely subsidize the market costs of housing -- whether Section 8 rent subsidies, Section 235 and 236-type mortgage interest subsidies, or housing allowances -- are too expen-

sive, and therefore are funded to serve only a very limited number of needy households. These subsidies do nothing to change the housing cost structure; they merely throw in ever larger "gap" funds to cover the difference between what housing costs and what people can afford. And since that gap and the number of people the market cannot serve keep growing, it is like throwing money into a bottomless pit.

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direct repayments to the lender, from tenants embedded in the rent check. And in almost all cases debt repayment is a permanent and usually growing consumption cost: each time a residential property is resold, it generally commands a higher price, with a larger mortgage debt, often at a higher interest rate.

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- + The National Housing Product^{ion} and Finance Act, for the purpose of building new "social housing" (a term widely used in Europe to designate housing that is not in the profit sector) and rehabilitate existing market housing acquired for social ownership.

- + The National Housing Conversion Act, for the purpose of converting existing housing to social ownership.

- + The National Home Protection and Improvement Act, for the purpose of upgrading and protecting the existing socially owned housing stock; and

- + The National Private Tenant Protection Act, for the purpose of guaranteeing residential security in private rental housing.

The Act also contains cost estimates.

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In sum, the traditional liberal approaches to solving the nation's housing needs are wholly inadequate, both in quantity and concept. They fail to recognize the structural nature of the affordability crisis and its causes. And they continue to rely primarily on government aids to the private, profit-oriented sector. Such an approach can never succeed and will always wind up costing far more than we are willing and ought to pay in government subsidies. Government housing subsidies will be needed so long as people's incomes are insufficient to pay the cost of obtaining decent housing, and if we are serious about Congress' National Housing Goal of "a decent home and suitable living environment for every American family," those subsidies must be available to all who need them. But only through restructuring the housing system along the lines I have discussed will attainment of the National Housing Goal be financially feasible. H.R. 1 doesn't do this, and the Reagan Administration's budget certainly doesn't do this. As the housing crisis worsens, as surely it must, we will inexorably turn to new approaches. The specific proposals attached to my testimony embody such an approach, and I urge you study them carefully.

NATIONAL COMPREHENSIVE HOUSING PROGRAM

February 1985

This Program was drafted during a two-year period by the members of a national task force on housing policy. Task force members include Emily Paradise Achtenberg, Richard P. Appelbaum, John D. Atlas, Peter Dreier, Bob Goodman, Chester Hartman, Jackie Leavitt, Dan Lindheim, Peter Marcuse, Christine Minnehan, Carole Selter Norris, Mike Rawson, Florence Roisman, Joel Rubenzahl, and Michael Stone. The final version was written by Richard Appelbaum, with the assistance of members of the task force. The task force was funded by grants from the Shalan Foundation, Sunflower Foundation, Seed Fund, and the Institute for Policy Studies, and is a component of the Institute's Alternative Policies project. The views expressed in this document are those of the authors, and not necessarily those of the funding organizations.

The task force was headed by Richard Appelbaum and Carole Norris, and all inquiries should be directed to them at the following addresses:

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**NATIONAL COMPREHENSIVE HOUSING PROGRAM:
Outline of Program Components**

I. Introduction

- A. Dimensions of the Housing Problem
- B. Sources of the Problem
- C. The Failure of Current Approaches
- D. Principles for a Just Housing Program
- E. Our Vision

II. Legislative Findings and Legislative Intent**III. Principal Program Components**

- A. Building New Social Housing and Rehabilitating Existing Market Housing Acquired for Social Ownership: the National Housing Production and Finance Act

- 1. Production
 - *goals and objectives
 - *private versus social production

- 2. Financing
 - *direct grants
 - *operating subsidies
 - *program cost

- B. Converting Existing Housing to Social Ownership: the National Housing Conversion Act

- 1. Rental Housing Conversion
 - *conversion and buyout provisions
 - *social management of converted housing
 - *program cost

- 2. Privately-Owned Homes
 - *foreclosure protection
 - *home improvement grants
 - *program cost

- C. Upgrading and Protection of Existing Socially-Owned Housing Stock: the National Home Protection and Improvement Act

- *lifetime security of tenure
- *stringent removal protections
- *assured maintenance
- *continued affordability guarantees
- *maximizing resident control

- D. Guaranteeing Residential Security in Private Rental Housing: the National Private Tenant Protection Act

- 1. National Just Cause Eviction Protections

2. Local Options/Federal Standards
 - *rent control
 - *condominium conversion controls
 - *demolition controls
 - *warranty of habitability
 - *resale controls
 3. Private Rental Housing Management Standards
 - *stringent removal protections
 - *assured maintenance
 - *continued affordability guarantees
 - *maximizing resident control
- D. Guaranteeing Residential Security in Private Rental Housing: the National Private Tenant Protection Act
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 - *rent control
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 - *resale controls
 3. Private Rental Housing Management Standards
- E. Summary of Annual Program Cost
- IV. Program Implementation: Federally-Mandated Local Housing Programs
- A. Summary of Major Provisions
 - B. Specific Provisions:
 1. Legislative Findings and Intent
 2. Federal Role
 3. State Role
 4. Local Role
 - *needs assessment
 - *goals, objectives, and policies
 - *housing program
 - *housing program revisions
 - *individual standing to challenge local plans
- V. Short-term Measures
- A. Tax Measures
 1. Overall Objectives

2. Homeowner Deduction
3. Depreciation Allowances
4. Capital Gains and Anti-Speculation Taxation
5. Tax Exempt Bonds
6. Local Tax Reform
 - a. progressive real property tax
 - b. luxury housing tax

B. Financing Measures

1. Steering Private Credit Towards Social Housing

Objectives

 - *Community Redevelopment Act
 - *differential taxes on private credit institutions
 - *loan setaside requirements
 - *differential reserve requirements
 - *below market interest rate requirement ("inclusionary banking")
2. Building on Existing Government Programs
 - *urban renewal
 - *expanded direct financing through UDAG, CDBG, etc.
 - *turnkey-type programs

Chapter I:

Introduction

The home is the cornerstone of the American dream. It is a sanctuary from the pressures of work, a haven from the intrusions of government. The home is the place where the rewards of private life are to be enjoyed, secure from all outside pressures.

Like all dreams, this vision of the home as castle has always exceeded its reality. Yet for the last fifty years, and for a large number of middle class Americans, the dream appeared at least plausible. The explosive development of suburban detached dwellings, the availability of federally insured long-term mortgage financing, and the postwar rise in living standards of middle class Americans all contributed to that plausibility. For over half a century the proportion of renters had steadily declined, so that by 1980 two out of every three American households could boast of home ownership.

The poor never shared in the American dream. For minority households, elderly people living on fixed incomes, female-headed households, and a significant number of working class white families, ownership was at best a distant promise, a vague hope for one's children. Yet so long as middle class Americans felt secure in the dream, national policy was able to ignore the needs of those who were denied it.

Today it is no longer possible for national policy to do so. During the past ten years significant numbers of middle income Americans have seen the dream recede, replaced by a reality of rising housing costs, declining affordability, reduced choice, and insecurity of tenure. It is no longer possible to provide decent, secure, and affordable housing to the majority of Americans as if it were their birthright. Partly this is because of the economic conditions of the post-Vietnam War period: chronic inflation, long term increases in unemployment, stagnation in growth, and recurrent deep cycles of decline and recovery. These conditions have resulted in a steady erosion in living standard for many middle class Americans, while at the same time reducing the number of available housing units.

Although the President's Commission on Housing (U.S. President's Commission on Housing, 1982: xvii) assures us that "Americans today are the best-housed people in history," this has never been the case. A brief comparison with Sweden is instructive. In 1965 Sweden embarked on a ten-year program to bring affordable housing within reach of its entire population. The United States made a similar public commitment three years later. The rates of anticipated new construction were unprecedented in both countries, approaching 10-13 units per thousand people, foretelling a one-third increase in the respective housing stocks over a ten year period. The United States, lacking any real means to implement its goals, fell short

4.5 million of the projected 26 million units, or almost one-fifth. Of the 6 million targeted subsidized units, only 2.7 million were built--a shortfall of 55% (Stone, 1980).

Sweden, by way of contrast, overreached its ten-year target, achieving construction rates 20-25% higher than previous levels (Nesslein, 1982: 241). With housing regarded as a public right rather than as a commodity, construction was directed towards the public-owned and cooperative sectors. In 1970, for example, 43% of all construction was undertaken by non-profit municipal housing companies, with an additional 16% done by cooperatives. Owner-occupied homes accounted for only 28% of the total, with private rental housing amounting to a mere 13%. A complex system of subsidies and housing allowances assured that no person need spend more than 20% of his or her income on housing. By the mid-seventies it appeared that Sweden had achieved its goal of providing adequate and affordable shelter for its entire population.

A. The Dimensions of the Housing Problem [1]

It is not simply in comparison with other countries that the United States has suffered a decline in its standard of housing; that standard has dropped with respect to its own recent past as well. Over the past decade, the supply of available housing has decreased relative to need. For homeowners the vacancy rate has remained consistently low at under 1.4%, while for renters it declined from 6.6% in 1970 to 5.1% in 1980. No significant numbers of apartments are being built today, leading the U.S. Comptroller General (1979) to characterize rental housing as an "endangered species." It is estimated that approximately 2.4 million housing units must be constructed each year to keep pace with demand (COIN, 1979: 56). That figure was realized in 1974; yet in the highly cyclical building industry, construction levels had declined to half that amount the following year. In 1978 they rose again to 2 million, before declining to 1.1 million in 1981 and 1982 (U.S. Bureau of the Census, 1983a: table 1). It is noteworthy that unemployment in the construction industry had risen from 10.2% in 1979 to 21.9% in November 1982 (U.S. Department of Labor, 1982).

This decline in supply is reflected in a parallel decline in affordability. For renters, housing costs are increasing almost twice as fast as incomes: between 1970 and 1980, median rents rose 123% while median renter incomes rose only 67% (U.S. Bureau of the Census, 1982b: table A-2). In 1970, 40% of all renter households paid at least 25% of their income for housing, and 25% paid at least 35%. But in 1980, the proportion paying 25% or more had increased to 53%, and 34% paid more than 35%. An astonishing one out of five renter households devoted at least one-half of their income to housing (U.S. Bureau of the Census, 1972, 1982b: table A-2). Growing costs are reflected in utility bills as well as sales prices and rents. Between 1980 and 1981 the Consumer Price Index for fuel, oil, coal and bottled gas increased by a factor of 6.23 (U.S. Bureau of the Census, 1981: 393), an increase that was especially felt in the economically depressed

frostbelt communities of the Northeast and Midwest.

Needless to say, problems of affordability are felt unequally by different groups, with female-headed, elderly, minority, and farmworker households impacted the most. For example, 72% of all households earning less than \$10,000 pay 25% or more of their incomes for housing, while only 3% of those with incomes of \$50,000 or more pay this much (U.S. Bureau of the Census, 1981: table A-1). Between 1978 and 1981, median rents for the very poorest households--those with median incomes under \$3,000--increased 38%; the corresponding figures for all renter households was 21% (Dolbeare, 1983: 33). It is estimated that fewer than half of these poorest households are able to find rental units that cost 25% or less of their income (*Ibid.*). In fact, using the 25% standard, it is estimated that nationally there is a shortage of some 1.4 million rental units for households earning less than \$3,000, and 4.1 million units for those earning under \$7,000 (*Ibid.*: table 2.3).

10% of female-headed households live in housing that is officially rated as inadequate, as compared to 7.5% of all households (U.S. President's Commission on Housing, 1982: 9). Low-income, minority, and female-headed households are more likely to be displaced even though their housing options are more limited (U.S. Department of Housing and Urban Development, 1981: 38). Renters are much more likely to be poor or minority than are homeowners. In 1980, median renter household income was 54% that of homeowners, reflecting a substantial deterioration in this ratio from ten years previously, when it stood at 65%. For Hispanic renters the 1980 ratio stood even lower, at 47%, while for Blacks it was only 38% (Dolbeare, 1983: 32).

While there is a significant and growing disparity between renters' and homeowners' incomes, the latter have also experienced serious housing affordability problems. Between 1970 and 1980, the median sales price of existing homes increased by a factor of two and three-quarters, from \$23,400 to \$64,400 (U.S. Congressional Budget Office, 1981). During the same time, mortgage interest rates on conventionally financed single-family homes rose by over half--from 8.4% to 12.7%. Based on a conventional 30-year loan for 80% of the sales price, monthly mortgage payments tripled over the ten year period--from \$140 to \$558. It is worth noting that while 60% of this increase can be attributed to the increase in sales price, the remaining 40% is due to the rise in mortgage interest rates. During the same ten-year period, median homeowners' incomes rose only 104% (U.S. Bureau of the Census, 1982c). In 1981, first-time homebuyers represented only 13.5% of the sales market, as compared with 36% in 1977 (U.S. League of Savings Associations, 1982). Among homeowners with mortgages, 31% currently pay more than one-quarter of their income on housing-related expenses, while 21% pay more than 35% (U.S. Bureau of the Census, 1981a: table A-1).

There are substantial problems with housing quality as well as cost. In 1979, 24% of renters and 19% of homeowners had insufficient heat. 32% of all rental units and 10% of all owner-occupied homes were considered by their occupants to be in only fair or poor condition (U.S. Bureau of the Census, 1982a: table A-2, A-3). The problem of neglected maintenance followed by housing abandonment is a growing one in many large cities, particularly in the Northeast; New York City alone loses 30,000 units a year (Marcuse, 1979: 70; Stegman, 1982: 181). Overcrowding is also a serious problem, with growing numbers of persons doubling up to economize on rising housing costs. Even new homes are smaller in size, as builders seek to cut costs in hopes of attracting middle class buyers: between 1979 and 1981 the average newly constructed home had declined 7% in floor area (U.S. Bureau of the Census, 1983b: table 21). The most serious deficiencies are found not with regard to individual units, however, but rather neighborhood quality. In 1979, for example, 73% of all renters and 62% of all homeowners found their neighborhoods to be deficient with respect to noise, litter, crime, streets repair or lighting (U.S. Bureau of the Census, 1982a: tables A-2, A-3).

Lack of residential security is also a growing problem, one that cuts close to the heart of the American dream. According to recent government estimates, 600,000-850,000 households--some 1.7-2.4 million persons--are forced to move each year because of private market activity. Over 40% of such moves are attributable to increased housing costs, with the sale of the building accounting for another 23% (U.S. Department of Housing and Urban Development, 1981: 25-26). While tenants are most vulnerable to being forced out of their homes, homeowners are increasingly threatened by mortgage foreclosures and eviction. Residential mortgage delinquencies are now at a thirty-year high, with an estimated 140,000 homes in the process of foreclosure (Brooks, 1982). In the first half of 1982, one out of every 400 mortgages was foreclosed (Gulino, 1983; Mariano, 1983), while for the third quarter of 1981, 5.3% of all mortgage loans in the nation were 30 days or more past due--the highest rate since this information was first recorded in 1953 (Williams, 1981; Tesley, 1981). Foreclosures, of course, reflect regional economic conditions as well as the national business cycle, and therefore are considerably higher in high unemployment areas such as the Midwest, where the rate was 7.8% (Ibid.).

Homelessness, the extreme outcome of displacement and shortages of affordable housing, has become a significant problem in many places. Recent estimates for New York City area indicate as many as 50,000 homeless, while the figures for Los Angeles suggest a maximum of almost 40,000 (U.S. Department of Housing and Urban Development [HUD], 1984:14). While the recent HUD study estimates a national homeless population of 250,000-350,000 (Ibid.: 19), this figure almost certainly underestimates the actual amount by a considerable amount. Previous estimates have placed the figure at closer to 2 million (Ibid.: 9). [2]

Finally, it is important to realize that housing problems often have broad social consequences. Housing, after all, is much more than shelter. It provides social status, access to jobs, education, and other services; a framework for the conduct of household work; and a way of structuring economic, social, and political relationships. Racial segregation in housing, which remains severe (Tauber, 1975), limits educational and employment opportunities for minorities even as it forces them to pay more of their income for declining services. Housing design and locational patterns reinforce the traditional division of labor within the male-dominant family, foster unpaid work in the home, and restrict opportunities for female labor-force participation (Saegert, 1981; Rothblatt et al., 1979). In this way, housing both reinforces and perpetuates economic and social divisions that exist within the larger society.

B. Sources of the Problem

Although this is not the place to offer a detailed analysis of the causes of the housing crisis,[3] it is necessary to summarize the contributing factors in order to identify the principal roots of the problem. Cyclical and long-term imbalances between housing supply and demand result from numerous sources. On the demand side, we can identify the following sources:

*Demographic changes resulting from past fertility patterns (the 1950's "baby boom" children are now reaching the age of initial household formation) and new preferences for household size, reflected in single parent and second family households. These changes have combined to greatly increase the numbers of households seeking shelter. An estimated 16.8 million household formations are forecast for the present decade (U.S. Bureau of the Census, 1979: P-25, no. 805). These long-term demographic changes are compounded by shorter-range geographic shifts, both within metropolitan areas and across regions. The most significant changes at present involve the declining industrial areas of the Northeast and Midwest, with the corresponding rise in those of the South (mainly Florida and Texas) and West (mainly California and Arizona). Between 1973 and 1980, for example, Michigan lost 17% of its manufacturing base, while California gained 21% and Texas 32% (Harper's, 1985: 37). These shifts result in acutely depressed housing economies in the declining industrial regions, and frequently inflated housing costs in the growth areas.

*Speculation, the buying and selling of property for short term gain resulting from inflation, can result in significant short-term price increases. In housing, speculation is encouraged by a mortgage financing system that permits a small down payment to leverage control over a substantial investment. Speculation was in part responsible for the major price increases that occurred in California during the late 1970's, as speculative investment capital flowed into local housing markets in search of quick, safe profits. Speculation is wasteful and

inefficient, and can be extremely damaging to low income neighborhoods whose residents can be quickly priced out of the housing market.

*Tax policies contribute both to artificially high housing demand and speculation. For homeowners, the federal income tax deductions for interest and property taxes encourages the purchase of more expensive housing than would be affordable in the absence of such deductions (U.S. Congressional Budget Office, 1981). For income property owners, the ability to depreciate the purchase value of the structure over relatively short periods encourages the resale of property as soon as the bulk of depreciation benefits are exhausted--usually five or six years. This, in turn, contributes to the treatment of rental property as a speculative investment, in which returns are calculated in terms of short term yield rather than long term income potential.

On the supply side there are numerous factors which combine to push up the price of housing. These include:

*Interest rates currently stand almost twice as high as a decade ago, and nearly three times as high as the fifties and early sixties (Hartman, 1983b: 19). Interest rates drive up the cost of mortgage payments. While higher payments may, in turn, have a dampening effect on demand and hence inhibit price increases, this effect is small in comparison with the higher financing costs. We have already seen that 40% of the rise in mortgage payments between 1970 and 1980 can be attributed to the rise in interest rates over the period. Interest rates also add directly to the cost of construction, since most construction is financed with private loans. Construction loan interest is one of the most rapidly rising components of housing production costs (the other is land; see U.S. President's Commission on Housing, 1982: 181). From the perspective of the housing economy, interest rates are externally determined; they do not reflect local supply and demand conditions, but rather national and international credit markets and federal monetary policy. Since the Federal Reserve System uses high interest rates as its chief means of fighting inflation, housing consumers suffer greatly during times of anti-inflationary monetary policy. Related to interest rates is the general availability of mortgage credit, which is also made to shrink through monetary policy, and which is often crowded out during times of high overall demand for credit.

*Recurring cycles in housing production, with alternate periods of boom and bust. This is true because housing demand follows the employment cycle, because private credit for housing is often "crowded out" by other credit demands during upsurges in the business cycle, and because restricted credit supply and high interest rates are used

by the Federal Reserve to slow down economic growth during inflationary periods. One result has been a significant impairment of the long-run productive capacity of the housing industry (U.S. President's Commission on Housing, 1982: xxi, 182; Solomon, 1981: 200). The cost of idle plant and construction equipment during slack times is recaptured in higher prices of those housing units which are built. Construction workers require higher wages to offset those periods when they will be unemployed. Builders face a high degree of risk, which they cover through higher profit margins, a cost which is passed on to consumers. Estimates of increased production costs resulting from cyclical instability run as high as 15-20% (COIN, 1979: 57).

*Profits at all levels add considerably to the cost of housing, since they are cumulated throughout the production, sales, and consumption process. Each participant seeks to maximize his or her return. The key participants include:

- *the owner of the land on which the unit is built, who may realize a speculative gain;
- *the financial institution which makes the construction loan, whose profit is included in the interest charged;
- *the general contractor and sub-contractors during the construction phase;
- *the building material providers, which are frequently giant corporations with few incentives for cost control;
- *the financial institutions which make the mortgage loan; and finally,
- *the profits made by each successive owner, everytime a property is sold at a higher price.

*Other sources of high housing costs include Property taxes, which are highly regressive, and utility costs, which have escalated in recent years. Local government restrictions on development can also add to housing costs, although in recent years their impact is substantially less than is widely believed, since national cycles in the credit and construction economies have tended to overwhelm purely local conditions.

There is a single, underlying theme to these causes, which in our view explains the inability of our society to provide adequate, affordable housing for all segments of the population: housing--a necessity of life--is treated not as a social good but as a commodity. Housing in our society is produced, owned, operated, and sold in ways designed to maximize profits, rather than to provide needed shelter. The consequence is waste and inefficiency in production and allocation; a highly volatile housing economy; chronic shortages, particularly among lower

income households; and a growing gap between income and housing costs. Furthermore, since virtually all housing construction and purchase is financed through private credit, residential mortgages are a significant portion of total private debt in the United States, averaging around one-third over the past fifteen years. In 1980 residential mortgages exceeded one trillion dollars. At the same time overall indebtedness has increased, with the result that residential mortgage debt in 1980 stood at 41% of Gross National Product, a substantial increase from the 36% ratio ten years earlier, and three times the post World War II ratio of 13.5% (Stone, 1983: table 4.3.).

This heavy dependence on private debt financing renders housing costs and starts highly susceptible to fluctuations in the credit markets, as has been previously shown. It also siphons off credit from industry and other productive uses, rechanneling it into inflated and often speculative housing markets, and thereby depriving the national economy of needed investment capital. Finally, overall economic stability is threatened, since during a deep recession significant numbers of mortgage failures threaten numerous banks and lending institutions, with obvious adverse consequences for the entire financial structure.

C. The Failure of Current Approaches

Federal housing programs date back to the Depression, and over the years have included low interest loans, mortgage interest subsidies, rent supplements, publicly owned (but privately financed) low income housing, and--in the case of military housing--direct public financing as well as ownership. Many programs have been targeted to specific groups, such as the elderly, rural households, or very low income households. Federal programs have never reached more than a small fraction of those in need, however, because housing has never officially been regarded as an entitlement in the United States. The largest federal outlays for housing, in fact, have gone to upper-middle class home owners, in the form of deductions for mortgage interest and property taxes. It is estimated that in 1984 these deductions will have cost the Treasury \$49.4 billion, which is more than has been spent under all HUD assisted housing programs since the inception of public housing in 1937. 60% of these deductions go to taxpayers in the top 10% of the income range (Dolbeare, 1983: figure 2.1, pp. 68-67).

The two principal programs which are directed at low income populations include public housing and rent supplements. Public housing dates to the National Housing Act of 1937. It was originally intended as a pump-priming public works program, and after World War II served the needs of returning veterans. It wasn't until the massive urban renewal and slum clearance programs of the 1950's that public housing became identified with exclusively low income minority populations. As large public housing projects became "last resort" housing for the economy's cast-offs, it became subjected to official neglect, chronic underfunding and undermaintenance, and often inefficient and bureaucratic management. It became an oppressive means of

stigmatizing the poor, maintaining class and racial divisions, and discrediting the concept of public enterprise in our society. While public housing is owned by public agencies (usually local housing authorities), it is built with private contractors and financed with bonds, and its costs thus reflect both private profit maximization and the instabilities of the private credit markets.

The other major low income housing programs consist of rent supplements or housing allowances, and are currently administered as the Section 8 Program. Under this Program participating private landlords agree to charge qualifying tenants "fair market" rents, which are based on prevailing rent levels as determined by HUD. The government then makes up the difference between this market rent and the tenant's rent payments, set at one-third (formerly one-quarter) of monthly income. As can be imagined, this Program is highly inflationary during times of rapidly rising rents, with direct subsidy cost for a new unit of Section 8 housing estimated at \$4,000-\$5,500 per year (U.S. Department of Housing and Urban Development, 1982).

When all low income housing programs are considered together, there are some 4.5 million housing units which currently receive some form of subsidy, of which 3.4 million are in urban areas administered by HUD, with the remainder in rural areas administered by the Department of Agriculture's Farmers' Home Administration (FmHA). The HUD administered units include 1.2 million units of public housing, and about 1.3 million households receiving Section 8 payments (Dolbeare, 1983: table 2.6).

Notwithstanding the fact that these programs reach fewer than one out of every four households living in poverty, the Reagan administration has subjected them to deep budget cuts. The 1984 Budget, for example, called for a 94% cut in the level of new budget authority for low income housing. For existing subsidized units, the administration has proposed reducing the stock through demolition, conversion, and sale. HUD plans to sell or demolish 100,000 public housing units over the next five years. Recipients of housing assistance will be forced to devote higher proportions of their income to housing. As housing difficulties extend further into the middle class, the government's approach is to trust to the marketplace and all but eliminate its own minimal role. We believe that this is a prescription for disaster during the coming decade.

D. Principles for a Just Housing Program

Our Program begins with the assumption that every person is entitled to adequate housing at an affordable price. Such housing is to be secure with respect to tenure; to be located in a neighborhood of choice; and is to respect the special housing problems of women, minorities, and other groups who have traditionally suffered discrimination in housing markets.

The market economy has failed to provide such housing to those who need it most in either of its two principal streams: private ownership or rentals. We therefore propose a third stream of housing, alongside the existing two, to serve the needs of the growing numbers of households who are ill-served by the marketplace. Over time, the role of profit in this third stream will be eliminated, substituting instead the basic principle of social determination. This applies not only to the production, financing, ownership, and sale of housing, but to decision-making in the housing sphere in general. This is not to call for centralization of housing programs in a federal bureaucracy. The federal government's role should be limited to setting standards and minimal requirements, providing financing, and assuring enforcement. Administration will be local.

The Program is founded on the following general principles:[4]

Expand the amount of housing under social ownership.

By "social ownership" we refer to housing that is operated solely for resident benefit and is subject to resident control. Such housing cannot be resold for a profit. Social ownership may take many forms, including direct public ownership by government or non-profit entities, collective ownership by resident-controlled corporations or neighborhood councils, non-equity or limited-equity cooperatives, or non-speculative resident ownership of single-family homes. Residents of socially-owned housing would pay rents according to true ability-to-pay, and would have the right to permanent occupancy as long as they comply with reasonable tenure obligations.

Increase social control over the housing production process.

Although in the immediate future most aspects of housing production will continue to be performed by the private sector, in the long run all housing that is produced under our program will be subject to social control. By this we refer to social ownership of the materials production industries, an increasingly strong public and community development sector, and a growing role for worker-controlled and public construction companies. This will be encouraged through technical assistance and funding to non-profit suppliers and developers. Within this framework, we envision a substantial amount of new housing construction to meet the needs of newly formed households, to replace lost or unrepairable units, to reduce overcrowding, and to facilitate mobility and choice. National multifamily housing production targets will be set in conjunction with local housing development plans. Additionally, the existing housing stock is to be converted to social ownership where feasible, and upgraded to appropriate standards of safety, livability, space, and energy-efficiency.

All federal financing for housing production, upgrading, and operations should be targeted exclusively towards socially owned and operated units, and should be through a system of direct federal grants.

The dependence of housing production, ownership, and improvement on private mortgage credit must be greatly reduced. Accordingly, all of the proposed housing programs will be financed with direct grants, in much the way that we fund military facilities. This housing would therefore be permanently debt-free, with no mortgages or bonds to repay. At the same time, as a growing portion of the existing stock is converted to social ownership, the mortgage debt on these properties will be paid off over time, and eventually eliminated.

The speculative private use and disposition of land is to be controlled.

Land is a scarce resource, acquiring much of its value by public action. Land has a pervasive influence over community life. Its control is an indispensable element in planning for society's needs. Its rising cost is a significant deterrent to housing development and community planning. The amount of land under social control and ownership is to be expanded, and existing public lands preserved, through government and community land-banking. Public control over private land will be achieved through a variety of regulatory, tax, and planning measures.

Increase resident control over neighborhood decisions.

To assure that local housing programs are responsive to the needs of low- and moderate-income and minority neighborhoods, the residents of such neighborhoods should be increasingly involved in development and service decisions. Such control must operate within a basic non-exclusionary framework, and should not be construed to exclude or deny access or opportunity. Control must include control over private development decisions that affect the well-being of the neighborhood. At a minimum, this means that any private development activities must involve neighborhood input, and, where determined to be detrimental, should be strongly regulated to as to minimize adverse impacts.

The discriminatory and exclusionary uses of housing should be eliminated.

Racial minorities, women, and the low-income elderly are among the principal groups that continue to suffer pervasive discrimination and exclusion in most housing markets. These forms of oppression must be ended. Beyond that, an affirmative effort must be made to provide housing in forms and locations that address the special situation of such groups, as well as safeguard the right to remain in place or move to other neighborhoods of choice. Housing resources must also be targeted for the revitalization of existing minority communities, while at the same time expanding the right of mobility for minority residents by providing increased housing options in other

neighborhoods of choice. Efforts are also needed to develop housing of appropriate size, type, and design, to free women from domestic oppression.

Resources for housing and neighborhoods must be allocated equitably, on the basis of need.

Funds should increasingly be targeted for purposes that benefit low and moderate income and minority households. In the long run, in order to provide decent, affordable housing and viable neighborhoods, the level of resources allocated to housing must be substantially increased. A major shift in spending priorities--most notably away from military spending--is necessary to provide sufficient funding to meet the housing objectives of this Program. Revenues must be generated in a progressive way, through the elimination of inequitable tax loopholes and the adoption of progressive tax measures.

E. Our Vision

Our hope is to provide housing that meets the needs of those low and moderate income households which are not served by the present system. We believe that the community has an obligation to provide housing that is affordable to all segments of its population. To achieve this end, we offer long-term measures which can serve as a guide for future action. We have no illusions about our Program being adopted in the immediate future, in the present political climate. But we firmly believe that as the housing situation worsens, these measures will come to have broad appeal.

Our Program emphasizes social housing ownership--a form of ownership based on the needs of the user. The rights of use ordinarily associated with private ownership are secured and enhanced: security of tenure, privacy, the right to modify one's living environment. Only the right to profit in housing is unavailable to those households who choose this alternative stream. Because such housing is nonprofit with respect to production, financing, and ownership, its greatly reduced cost will include only operating and maintenance expenses. Nonetheless, subsidies will be provided to assure that rent payments reflect true ability to pay. Social housing is operated only for resident and community benefit.

The social housing stock will increase both as a result of our production programs, and from conversion of market housing to social ownership. At the same time the existing social housing stock--including public housing, limited equity cooperates, and some assisted housing--constitutes a national resource threatened with demolition or sale to private ownership. Our program will arrest these processes, maintaining and enhancing the existing stock.

Speculation in housing cannot disappear overnight. Many adjustments are necessary as we move from a housing system characterized by inadequate and overpriced accommodations in segregated and insecure neighborhoods, to the kinds of residential environments that are our goal. For these reasons we have offered a number of short-term programs which ameliorate present conditions and, in some cases, built directly into our longer-term objectives.

Our draft program outlines four legislative proposals designed to meet the above goals:

1. the National Housing Production and Finance Act;
2. the National Housing Conversion Act;
3. the National Home Protection and Improvement Act; and,
4. the National Private Tenant Protection Act.

Additionally, we discuss federally-mandated local programs which are to serve as the vehicle for implementation of these measures. Finally, we conclude with short-term tax reform and finance measures which will further our overall objectives.

Footnotes

1. This section is partially adapted from Achtenberg and Marcuse (1983), two members of the task force which drafted the National Comprehensive Housing Program.
2. The HUD study suffers from significant methodological flaws which render its conclusions doubtful. For a collection of critiques see U.S. House of Representatives (1984).
3. For such an analysis, see Stone (1980, 1983), Rybeck (1982), the collection of readings in Hartman (1983a), Downs (1983), Sternlieb and Hughes (1981), U.S. Comptroller General (1979), and U.S. President's Commission on Housing (1982).
4. This section is also partially adapted from Achtenberg and Marcuse (1983).

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Chapter II:

Legislative Finding and Legislative Intent

The National Comprehensive Housing Program reiterates the National Housing Goal of the National Housing Act of 1949, that every American is entitled to "a decent home and suitable living environment," and updates the Act as appropriate. It further makes findings that the availability of housing which is decent, safe, sanitary, affordable, compatible with residents' needs and under resident control is of vital nationwide importance. It establishes that the attainment of the National Housing Goal is a priority of the highest order. It declares that local, state, and federal governments have a responsibility to use their powers to meet the housing needs of all segments of the community. Finally, it establishes that in order to meet these housing needs, it is vital that a "third stream" of socially owned and resident managed non-profit housing be created alongside the existing streams of private owner-occupied and rental housing.

Chapter III:

Principal Program Components

A. Building New Social Housing and Rehabilitating Existing Market Housing Acquired for Social Ownership: The National Housing Production and Finance Act

The National Housing Production and Finance Act sets national production and rehabilitation goals, providing for low and moderate income housing that is outside the private profit-oriented sector in terms of production, finance, and ownership. Production is to be directed increasingly towards non-profit builders and developers. Finance is held to be the responsibility of the federal government rather than private credit institutions, and is accomplished through a system of direct capital grants. Ownership is to be social rather than profit-oriented, resting in the hands of residents, public agencies, or community organizations. In all instances, management decision-making is to be subject to resident control.

In growing locales new construction of socially-owned housing will be a first priority under this Act. In areas that are not growing--or are declining in population--acquisition and substantial rehabilitation of the existing deteriorating rental housing stock may prove more suitable, for ownership as public housing, community-owned housing, and equity controlled cooperatives. Additionally, some of the privately-owned housing that will be converted to the social sector will receive support under other parts of this Program (see Section III.B. below).

1. Production

Social sector units are the only units to be constructed, rehabilitated, or financed under this Act, which calls for a redirection of all federal financial assistance to the non-profit sector. All socially owned housing units are to be targeted towards low and moderate income households.

The Act's production and rehabilitation goals will take into account all other components of the Program, including the quality of the existing housing stock; preservation and upgrading of existing social housing units; targets for converting private rental units to the non-market sector; and shortages confronted by specific population groups. Although initially the needs assessment will be based on a national survey, eventually localities will conduct the necessary studies as part of their federally-mandated housing plans (see Section IV below), taking into account their fair share housing needs. Production and rehabilitation goals will be reassessed and revised every four years, on the basis of actual performance. As a first step, 200,000 new social housing units per year will be constructed and an additional 400,000 will be substantially rehabilitated, pending the completion of a national needs assessment and the adoption of local plans.

Although the Program is limited to socially-owned housing, development may initially be undertaken by for-profit companies, non-profit groups, and public agencies such as public housing authorities and redevelopment agencies. For-profit developers must abide by the provisions of the Act as described immediately below. Development proposals will be solicited as part of the local housing planning process, described in Section IV. In the long run, it is the objective of this Act to steer production towards the "third stream" of non-profit developers and public agencies, whose principal concerns are with providing housing rather than profit maximizing. This will be accomplished by offering technical assistance and additional funding to such groups. It is anticipated that actual construction will likely be done initially by private for-profit builders, given the present nature of the housing delivery system. Under these conditions, bidding will be competitive and profits restricted.

On all social housing production, the following additional guidelines will be mandatory: (1) prevailing wages must be paid, except in the case of self-help, community-based, or "sweat equity" projects; (2) Davis-Bacon wages must be paid, with the previous exceptions; (3) materials and equipment will be purchased from union shops and/or worker-owned businesses, where possible; and (4) affirmative action principles will be required to encourage the hiring and training of groups traditionally excluded from construction.

2. Financing

All federal funding for housing construction and rehabilitation should be limited to either socially owned housing or privately owned units that are converting to the social sector. There should be no federal financial support for private sector housing production or rehabilitation.

All federal subsidy programs for housing construction and rehabilitation will consist exclusively of direct grants. Only in this fashion can costs be controlled and the production of affordable housing disentangled from private capital markets, whose economic cycles and volatile interest rates were shown in Part I to add appreciably to production costs. There it was argued that the tremendous (and rapidly growing) volume of mortgage credit--presently estimated at half the GNP--threatens the stability of the entire credit economy. Tax exempt bonds, another form of government subsidy, were also seen to be highly inefficient, primarily benefiting the wealthy (who can shelter their income from taxes by such investments), and costing more than direct capital grants. The most cost-effective method for producing subsidized housing is through substituting direct grants for both equity and debt capital.

Social housing programs--like other federal programs--should be funded directly through the federal budgetary process. Grants will be made directly to localities, or to other agencies (metropolitan-regional, state) where appropriate, in accordance with local housing plans (see Section IV below). The impediments to such a program are largely ideological and political, rather than economic. Military housing is a prime example of such an approach. In communities where the private housing stock is inadequate, the armed services have built over 400,000 units of off-based family housing for their personnel. Construction, maintenance, and modernization has been by means of direct allocations from Congressional appropriations to the Defense Department budget. Other examples include The FmHA's Section 514/516 program, which has been successful in producing low-cost rural housing, and more recently HODAG and Rental Rehabilitation grants. (These direct grant programs are of course not restricted to socially owned housing, and therefore serve also to subsidize the inefficiencies of the marketplace.)

A portion of federal capital funding should go towards public site acquisition, through land banking or other means to acquire sites for socially owned housing. While the exact portion devoted to such purposes must be determined in accordance with the overall planning process, the objective is to reduce future costs of public development by acquiring suitable land as it becomes available.

Costs of operating socially-owned housing will be considerably lower than in the private sector, since they will reflect only operation and maintenance. Direct financing of construction will remove the substantial capital cost component of rental charges, while social ownership will eliminate ordinary landlords' profits. Despite the lower costs, many households will still have incomes too low to cover monthly operating and maintenance costs, and so each social unit will receive a commitment of project-based operating subsidies. These subsidies will also be available to privately-owned rental units in communities that have adopted stringent regulations on private rental housing, as an incentive to those communities to adopt such regulations. (In such cases the subsidies can not be passed through to the owners as higher profits; see Section III.D. below.) The universal operating subsidies will serve to greatly enhance affordability, while increasing the attractiveness of the social housing sector.

As noted, operating subsidies are necessary initially because given the present income distribution, there will frequently remain a gap between ability to pay and rents, even in the social housing sector. Ability to pay is a function of disposable household income after spending outlays on such non-shelter necessities as food, health care, clothing, and so forth. This, of course, varies with household size and other characteristics. In 1980 it is estimated that 32% of all American households, 43% of renters, and fully 95% of all households with four or more persons and incomes under \$15,000, were paying more than they could afford for shelter. These operating subsidies

will, however, be considerably lower than those required in the present Section 8 program, reflecting the lower rents: we estimate them estimated at approximately one-third of Section 8 subsidies, or an average of about \$2400 per unit annually. Unlike Section 8, which requires recipients to pay 30% of their income regardless of how low the income or how large the household (and therefore its non-housing expenses), the operating subsidies proposed in this Section will not subtract from family income needed for other necessities.

An adequate program of operating subsidies for socially-owned housing would therefore replace the present "30% of income" formula by one that reflects actual ability to pay. As a first step towards the replacement of the arbitrary "30% formula" with one tied to true ability to pay criteria, the 30% ratio would be applied to adjusted annual income on rents, the adjustment consisting of a \$1200 deduction for each household member, plus child care and extraordinary medical expenses. Under this formula a four-person family with an annual total income of \$20,000 would pay \$380 in monthly rent (23% of total income), with any difference between rent and actual housing cost covered by the operating subsidy. A four person family earning \$10,000 annually would pay \$130 per month, or 16%, while a two person elderly household earning \$6,000 would pay only \$90 per month, or 18%. Over time the formula could be adjusted to take into account actual non-shelter expenses, an approach which would be more accurate and equitable although somewhat more complex to administer.

In the long run, operating subsidies could be replaced by a negative income tax which would enable lower income people to meet their shelter and other needs adequately. This would maximize the freedom to choose between shelter and other expenditures. Such a program presupposes, however, an adequately regulated housing market with a strong social sector. In the absence of these conditions, consumer-based subsidies can only fuel housing (and other) inflation, thereby greatly increasing the cost of the subsidy program.

The full Production Program will initially provide 200,000 newly constructed units and 400,000 substantially rehabilitated units per year. Additionally, operating subsidies will reach a total of 5 million units. New construction costs are estimated at \$80,000 per unit, or \$16 billion total; rehabilitation costs at \$40,000 per unit, for the same total amount. Average per-unit operating subsidies will cost \$200 per month, or \$12 billion annually. The total cost of the Production Program is therefore \$44 billion per year.

It is important to repeat a point previously made in Part I: the question of housing finance ultimately depends on national spending priorities. There is no shortage of capital for this or any social objective. There is, however, a shortage of affordable capital, which results from three sources: the misallocation of resources to non-productive uses, principal among which is the bloated military budget; the reliance on private credit markets

for funding; and wasteful speculation rather than productive investment. Although we have addressed only the latter two problems, it should be clear that no adequate housing program is possible without the redirection of a significant portion of current military spending, for which some \$313 billion has been proposed for fiscal 1985. There is no magic formula by which the necessary amounts of new funds can be generated, short of a major reduction in military spending. Although some limited funds can be generated by eliminating inequities in the present tax system (see Section V.A below), an adequate housing program will eventually require a shift in national priorities and commitments.

B. Converting Existing Housing to Social Ownership: the National Housing Conversion Act

Conversions from the private to the socially owned housing sector may occur either because an existing owner wishes to sell; is forced to do so because s/he faces mortgage or property tax foreclosure, or costly required code enforcement; or finds him/herself in receivership. In any case, there must exist a social owner who is technically and financially capable of acquiring the property, rehabilitating it if necessary while avoiding displacement, and renting it at an affordable level.

1. Rental Housing Conversion

Under the provisions of this Act, the federal government will provide financial and technical assistance to localities, which will in turn set conversion targets as part of their federally-mandated housing plans (see Section IV below). In addition to administering the funds and providing technical assistance to groups undertaking conversions, localities will be responsible for establishing legal mechanisms which:

- *grant the right of first purchase option to tenants organizations, community groups, government entities, or other legally defined social owners;
- *establish a formula for determining the maximum buy-out price that may be paid using public funds, in order to discourage purchases that are excessively costly (e.g., luxury units, speculatively priced units);
- *spell out procedures for determining the proportion of tenants required for first option purchases, while protecting tenants who choose not to buy into the conversion;
- *require permanent social ownership once transfer is completed (i.e., no housing is ever sold out of the social housing stock unless some clear public purpose is served);

*establish procedures for speedy local tax title search, to enable localities to obtain control of housing that is in tax arrears; and

*provide a legal definition of the various social ownership forms that will qualify for funding under the provisions of this Act.

The purchase price for conversions will be determined by market value. As a result of the long-term Program being proposed here, under conditions of adequate supply and in the absence of tax sheltering and speculation, market value will eventually fall to more closely reflect the utilization value of the unit. This is the value of the unit as a place of residence, taking into account such factors as location, condition, space, and amenities, while excluding the effects of tax sheltering and speculation. Until such conditions are realized as a consequence of this Program, however, the paying of full market price may in some places be costly as well as supportive of a speculative pricing system. For this reason localities are required to set maximum purchase prices for different types of units.

In addition to these measures, provision should be made for a permanent offer of purchase at a reasonable price of any low or moderate income rental property in which the mortgage has been paid in full and to which the owner holds clear title. The local government, using federal funds, would be the principal purchasing agency, and would subsequently either transfer such housing to an appropriate social owner or would administer it through the local housing authority. The purpose of this provision is to facilitate property transfers in which the owner, for whatever reason, wishes to divest him/herself of property at a fair price. Such a provision would be well publicized, would be especially attractive to owners who support the concept of social housing, and would expedite quick transfer to social ownership by providing what is essentially a standing offer to buy.

Low and moderate income rental property that is being foreclosed by the bank or tax collector will also provide an important source of social housing conversions. Notice of impending foreclosure proceedings must be provided to the appropriate local housing agency. In those foreclosure cases where the market value of the property exceeds the back taxes or debt, the locality will offer to purchase the properties from their owners for an amount not to exceed that value, thereby acquiring the property for the social sector. Such an offer will be subject to the maximum price limitations for conversions, as indicated above. Back taxes will be paid upon purchase. In most instances the loans will also be paid in full, although the social owner may in some cases wish to assume the loan (as when the interest rate is extremely low) in order to lower short-term costs. (Long-term costs are minimized by paying all debts upon acquisition.) In those cases where the debts exceed the market value, the property can simply be allowed to go through foreclosure proceedings. Under the provisions of this Act, the local government or other social entity will have first option to

purchase the property from the bank or the tax collector for the amount of the remaining debt or less.

Properties that are in substandard condition will be required to be brought up to code. Owners who cannot afford to do so may choose to sell the property to a social owner, at a price not to exceed the market value. Alternatively, direct capital grants will be available to the owner to bring the properties up to adequate health and safety standards, provided that the owner agrees to: (1) sell the property to a social owner after a specified period of time, (2) control the rents on the property, subject to the provisions specified in Section III.D. below, and (3) subject the property to such other safeguards and regulations as the locality deems necessary to comply with the requirements of its federally-mandated local housing plan. The buyout price will be determined by negotiation between the locality and the owner, and will reflect the current utilization value of the unit excluding the amount of the improvement grant. Similarly, the length of the specified time period until the unit transfers to social ownership will reflect the cost of improvements relative to the value of the unit; the higher the ratio, the shorter the time period. This approach will enable the owner to derive benefit from the property for a specified period; will improve the quality of the rental housing stock; and will secure future social housing at below-market prices.

Initially, this Program would reach 50,000 units per year at a per-unit cost of \$50,000 per unit, for a total cost of \$2.5 billion.

2. Privately-Owned Homes

Apart from revisions in income tax deductions for single-family homes (discussed in Section V.A below), this Program contains only limited provisions directed at owner-occupied houses. While the Program is intended to increase the amount of social ownership, those who can afford to buy private homes will be free to continue to do so.

Nonetheless, the single-family housing stock constitutes a potential social housing resource that should not be overlooked. In particular, housing that is under foreclosure proceedings can be readily and inexpensively added to the social housing stock, at the same time protecting homeowners against foreclosure and eviction. Such a Program will be of particular benefit to elderly homeowners who find themselves in mortgage or tax arrears.

All homeowners will have the option of deeding their house to a social entity, in exchange for lifetime security of tenure at an affordable monthly cost. This option will be especially attractive for those homeowners who face mortgage or property tax foreclosure. This form of protected ownership, which lies between private and social ownership, will safeguard the continued residence of the existing owner, while banking the unit for future inclusion in the social sector. The procedure will be as follows:

- (1) When foreclosure proceedings begin, the lender must notify the owner of the provisions of this Program. The Program shall apply only to low and moderate income homeowners.
- (2) If the owner exercises this option, the government or other social housing entity will assume and retire the loan(s), as well as pay off the overdue debts (mortgage and/or taxes), provided the market value of the house is greater than the sum of these payments. In the event that the loans and debts exceed the market value, the government will offer to pay off the debts and retire the loans up to an amount equivalent to market value. In no case will the government agree to retire combined loans and debts in excess of market value. As in the previous case of private rental conversions, a ceiling will be set on the amount that can be paid for a unit under this provision, to guard against the purchases of excessively costly units.
- (3) Monthly housing costs for the "protected owner" will be determined on the basis of ability to pay, with the ceiling being market rent.
- (4) The owner will have the option of buying back the unit from the government within one year, at a value equal to the government's position in the property.
- (5) The owner will enjoy lifetime security of tenure in the property, after which the property will revert to social ownership.

Over the longer term such a Program should be made available to all low and moderate income homeowners (not just those facing foreclosure)--a standing offer by the government to purchase the property for a reasonable amount, in exchange for lifetime security of tenure, at a monthly cost based on ability to pay (the ceiling being market rent). An alternative to outright purchase by the government would be some form of equity participation, in which the homeowner sells a portion of the equity to the social owner, in exchange for an annuity based on the amount of the equity. In this instance the property would revert entirely to social ownership upon the death of the original owner.

A related program would provide home improvement grants in exchange for deeding the property to a social entity after a specified time. This program would operate in a similar fashion to the rehabilitation grant program for rental property described above. The terms of the exchange would be governed by the amount of the grant relative to the current value of the property.

Initially, these Programs would reach 50,000 units per year at an average per-unit cost of \$50,000 per unit, for a total cost of \$2.5 billion.

C. Upgrading and Protection of Existing Socially-Owned Housing Stock: the National Home Protection and Improvement Act

As previously noted, social housing should provide the security, freedom of choice, and degree of resident control associated with private ownership. Yet in existing socially owned or subsidized housing such security is often lacking. First, existing occupants are subject to eviction resulting from a variety of circumstances outside their control. Second, the units themselves are subject to loss from the social housing stock through sale, conversion, or demolition. Third, even units in the social housing stock may sometimes become occupied by upper income households, or may offer reduced rent subsidies to tenants. Finally, units are often impersonally and inadequately managed, with inadequate managerial accountability and the complete absence of resident control over management decisions. These problems are addressed under the provisions of this Act.

The Act addresses the first of these problems--eviction--by granting lifetime security of tenure to all social housing residents, except for gross violation of community standards. Where it is believed such violations have occurred, residents will be protected by due process, under procedures secured by federal statute. When removal of social housing residents is required for some public purpose--for example, replacement of units for some other use--adequate relocation benefits and compensation are to be provided (along with one-to-one replacement of lost residential units). Grievance procedures must be adopted which insure tenants due process and the right of appeal.

Concerning the second problem--the loss of social units--there are two principal threats.

First, there is the danger that existing social units will be demolished, sold, or otherwise converted out of the social housing stock. The Act therefore provides for stringent removal protections, including:

- *a blanket prohibition against resale or other form of conversion to private ownership under any conditions, unless some clear public purposes is being served; and
- *a moratorium against demolition (or other removal from use) unless necessary for a social purpose, in which case a one-to-one prior replacement with equivalent units is required.

Second, there is the danger that undermaintenance and general neglect will result in the progressive deterioration of the social housing stock, to the point where units become unlivable. The Act therefore provides for the assured maintenance of the existing social housing stock, by guaranteeing:

- *funding to assure an adequate level of livability, including security and safety, energy efficiency, space utilization, and, where appropriate, child care and social services;
- *mandatory code enforcement, with the use of modernization grants to upgrade units that are below acceptable standards;
- *the provision of adequate operating funds; and
- *subsidies for necessary maintenance through capital grants.

The annual cost of modernization grants for these purposes is estimated at \$10 billion initially. This Program will reach approximately 500,000 units (about 10% of all socially owned units), providing an average of \$20,000 per unit.

The third problem--loss in affordability of social units--occurs either when units become occupied by households that no longer meet the original low or moderate income qualifying standard, or when government housing assistance payments fall in absolute terms or relative to the cost of living. The Act guarantees continued affordability of social units by:

- *requiring that all units in the social sector be initially reserved for low or moderate income households exclusively, for the life of the unit (income limits can be broadened as the social stock increases); and
- *using operating subsidies to assure that no qualifying household spends more than it can afford on social housing (see Section III.A, for discussion and cost estimates).

Finally, the fourth problem concerns inadequate, unresponsive, and non-accountable social housing management. One of the principal attractions of single family home ownership is the degree of control it affords over the use of space. Private rental housing, by way of contrast, typically affords residents little control over common areas and often even over immediate living space. Furthermore, since tenants are often even subject to arbitrary eviction--either directly, or through rent increases--they often don't experience strong personal identification with place. The "pride of ownership" is structurally absent from most rental situations.

The various provisions of this Act are intended to provide social housing tenants with all the benefits of ownership, excluding the right to resell at a profit. With the security of tenure provided under Section III.C above, and the control over living space provided in this Section, tenants will possess the degree of involvement ordinarily associated with home ownership. To maximize democratic resident control over housing in the social sector, moving towards eventual co-equal participation of residents and social owners, the Act therefore provides that:

*social housing residents shall have the right to participate in management decisions in such matters as rents, occupancy conditions and terms, maintenance and improvements, security, child care and social services, recreational facilities, and management hiring and firing;

*the role of social management is to be expanded, by providing technical assistance grants to the various forms of public or non-profit, tenant- or community-based management and mutual housing associations, with funding priority given in the short run to those projects which further social management objectives;

*technical assistance grants and funding shall be provided to support tenants' councils, with funding eventually tied to the creation and demonstrated functioning of such groups; and,

*adequate funding will be provided to foster compliance with the terms of this Section.

D. Guaranteeing Residential Security in Private Rental Housing: the National Private Tenant Protection Act

The non-social portion of the rental housing stock must be regulated to protect tenants from inadequate maintenance, arbitrary evictions, and unreasonable rent increases. Adequate and responsive management must also be assured. The following measures seek to achieve these objectives by a mixture of binding regulation and voluntary local compliance through the federally mandated Local Housing Program (Section IV below).

To the extent that the following measures reduce the profitability of rental housing, some owners will seek to divest themselves of their units. These units will then be available for conversion to social housing through the mechanisms discussed under Section III B. It should be emphasized that these measures are not confiscatory, but rather seek to balance tenants' needs for decent and affordable housing with private landlords' existing legal right to realize a "reasonable" rate of return on their investment.

First, the National Private Tenant Protection Act prohibits certain classes of tenant evictions, including evictions for luxury rehabilitation, demolition, or condominium conversion (unless prior one-to-one replacement and relocation benefits are provided); as well as eviction for any temporary inability to pay rent that results from involuntary loss of income (tied to a local unemployment rate trigger).

Second, the Act ties federal housing grants, block grants, and other funding to demonstrated local compliance with the overall objectives of this housing Program. Localities are under an affirmative obligation to provide adequate and affordable housing for their present and projected population, and are required to demonstrate such compliance, subject to local conditions, in order to be eligible for the federal funds. The planning mechanisms for doing so are discussed below (Section IV). The Act will establish a series of model ordinances whose adoption would automatically meet federal requirements. Such ordinances would include (but not be limited to) such tenant protections as the following:

***Rent Control:** The local rent control ordinance would be triggered by the certification of a rental housing shortage, as indexed by a rental vacancy rate below 5%. Localities are free to determine the nature of their own ordinance, subject to certain minimal federal standards. These include the following: (1) Localities are required to use a fixed net operating income approach in determining allowable rent adjustments. Under this approach, rent increases are based on increases in non-capital operating costs; cost increases resulting from refinancing are therefore not considered. (2) Rent controlled units must carry strong just cause eviction protections, to assure that owners do not evict tenants in hopes of circumventing the rent control ordinance. (3) Controlled units must remain under the ordinance until the scarcity conditions triggering the ordinance have been certified as over, regardless of change in tenancy.

***Condominium Conversion Controls:** As with rent control, the local condominium conversion ordinance would be triggered by a vacancy rate below 5%. An acceptable local ordinance, under the provisions of this Act, must contain a blanket prohibition against all conversions, with two exceptions: conversion to social housing, and conversions in which prior one-to-one replacement is provided and the majority of tenants approve the conversion. In both cases, long notice periods are full relocation benefits are required.

***Demolition Controls:** Also triggered by a vacancy rate below 5%, the ordinance must contain a blanket prohibition against demolitions, excluding demolition for a social purpose or where prior one-to-one replacement housing is provided. In these latter instances, adequate compensation and relocation benefits must be provided to the persons displaced.

***Eviction Controls:** Tenants must be protected, under local ordinance, from eviction for any cause other than voluntary non-payment of rent, willful property destruction, and eviction proceedings initiated by other tenants. In these cases, tenants being evicted must be afforded due process guarantees for eviction proceedings. Additionally, evictions are prohibited for condominium conversion or demolition except for public purpose (see above). Specific exclusions from this ordinance are determined locally, subject to federal review for purposes of determining local compliance.

***Warranty of Habitability:** Strict local standards for must be established for livability, energy efficiency, space utilization, safety and security, recreational facilities, day care, and social services.

***Resale Controls:** through tax changes (discussed in Part V.A of this Program).

While in the short run these proposals are conceived as local options for demonstrating compliance with federally-mandated local housing requirements, in the long term they will become a mandatory part of all local housing programs.

Third, the Act establishes national standards for private rental housing management. Managers of private multifamily housing are often inadequately responsive to residents. While it does not seem likely that most tenants in the private rental sector will become actively involved in management itself, norms of management accountability as well as avenues of tenant input must be established. The following short-term steps are therefore called for:

***Minimum national standards for management competency and performance** are to be established as guidelines for local licensing. Such standards will be locally enforced, and demonstration of compliance should be a part of any local housing program.

***Minimum national standards for management policy** must also be established, with local enforcement. These standards will include policies governing tenant selection and assignment, leasing and occupancy terms, grievance resolution, rent disputes, eviction protection, levels of maintenance, and compliance with federal, state, and local fair housing laws. There is a presumption that management has an obligation to

provide or assure access to such residential services as child care and other social services, adequate security, and recreational facilities.

*Tenants are guaranteed the right to bargain collectively with management in all these areas.

E. Annual Program Cost Summary (billions of dollars):**1. Direct Grants for Social Housing Construction:**

*New Construction:	200,000 units at \$80,000 per unit	\$16.0
*Acquisition and Rehab:	400,000 units at \$40,000 per unit	16.0

2. Operating Subsidies for Social Housing:

*5 million units at \$200 per month	12.0
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3. Conversion of Existing Private Units to Social Ownership:

*50,000 private rental units at \$50,000 per unit	2.5
*50,000 private home foreclosures at \$50,000 per unit	2.5

4. Modernization Grants for Existing Social Housing:

*500,000 units at \$20,000 per unit	10.0
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5. Planning and Administration:

*federal, state, local	10.0
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Total Program Cost:	\$69.0
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Chapter IV:

Program Implementation:
Federally-Mandated Local Housing Programs

Most of the measures discussed in previous sections of this Program are implemented at the local level. The role of the federal government is twofold: first, to establish general guidelines and minimal requirements which assure that the housing needs of low and moderate income people will be met; and second, to provide the financial and technical resources for localities to meet those needs. In other words, administration of the various elements of the Program is to be as decentralized as possible. This will simultaneously avoid federal bureaucratization, and maximize resident participation and control.

Local compliance with the federal housing law is a threshold requirement for receiving federal funds. Yet the law will operate through existing state and local planning or housing departments, utilizing the existing police powers through which state and local governments are able to regulate the private sector. As a consequence, each locality will exercise a great deal of control over the housing plan's design and implementation, although the overall plan parameters are established and monitored federally.

The principal provisions of this Act establish that:

- *it is a state and local duty to evaluate, plan for, and adopt a program that responds to the needs of all households, including a regional fair share of lower income and minority families;
- *federal funds for housing, highway and sewer construction, economic development (including small businesses), Urban Development Action Grants (UDAG), Community Development Block Grants (CDBG), and other federal programs which directly and indirectly impact housing be restricted to states and localities that are affirmatively satisfying their housing responsibilities;
- *local governments shall adopt complying local housing plans, utilizing all their powers and available resources to carry out the programs in those plans;
- *states shall adopt statutes which incorporate the provisions set forth below, designating an agency (presumably an existing one with housing or planning responsibilities) with primary enforcement responsibilities for ensuring that localities comply with the Act; and,

*HUD shall be the secondary enforcement body, with authority to certify the adequacy of state statutes and state compliance, and with additional authority to block or delay grants from federal agencies to non-complying states.

The specific provisions of the Act are set forth below.

1. Legislative Findings and Intent: The Act declares that it is the intent of Congress to:

- a. Assure that states recognize their responsibilities in helping to meet national housing needs.
- b. Assure that states implement housing plans which further the attainment of national housing goals.
- c. Recognize that each locality is best capable of determining specific actions required of it, provided that local determinations of appropriate actions are compatible with national housing goals and state and regional housing needs.
- d. Establish that it is the responsibility of localities to develop a housing plan which represents a maximum effort to meet the housing needs of its low and moderate income and minority residents.

2. Federal Role: The Act establishes a federal responsibility to:

- a. Certify that the state planning law satisfies the intent and requirements of this Act. HUD shall be designated the secondary enforcement body (the state housing authority shall have primary enforcement responsibilities, as indicated below), with responsibility for the above certification as well as establishing state compliance through examining a sample of local housing plans.
- b. Fund the various provisions of this Act at an adequate level.
- c. Enact legislation which would allow HUD to act with some of the powers of a national housing authority, in order to (1) withhold significant federal funds from non-complying states, i.e., states in which localities containing at least 50% of the state population were in non-compliance; and (2) bypass such states if necessary, allocating funds directly to localities with adequate housing plans located within states that failed to enact or implement an adequate state housing plan law.

3. State Role: The Act establishes minimum state responsibilities to:

- a. Adopt a state statute in compliance with the overall provisions of this Act, with which localities must comply.
- b. Designate a state agency to carry out the various duties of the state statute, in particular monitoring and reviewing local adoption of an adequate housing plan, and local implementation of the housing programs set forth in the plan.
- c. Provide for primary enforcement responsibilities.
- d. Pass through federal funds only to localities which are in compliance.
- e. Establish a state housing authority to carry out low-income housing activities in localities which are too small, inexperienced, or otherwise unable or unwilling to carry out the plans themselves. If a locality refused to enact or comply with an adequate plan, local non-profits could receive funds directly from the state housing authority, for purposes of undertaking appropriate housing and infrastructure activities.
- f. Provide that if a court, the state, or HUD found a housing plan inadequate, instead of halting development altogether, social housing permits, social housing conversion programs, and related infrastructure will be automatically approved in order to further to housing goals of this Program.
- g. Empower regional entities such as Councils of Governments (COG) to determine each locality's fair share of regional housing needs, in recognition of the fact that housing markets transcend local boundaries. The state housing authority is responsible for approving the local fair share estimates, as part of the state housing program.

4. Local Role

Each locality's housing plan must make adequate provision for the existing and projected needs of all economic and racial segments of the community, and provide for adequate sites for new construction. The Act requires that each local government not only assess its own needs and adopt broad goals and policies consistent with those needs, but also include in its housing plan an action plan for meeting those needs. The local housing plan must provide for the production and rehabilitation of socially-owned housing, conversion from private to social ownership, and the regulation of private rental housing.

The local housing plan is required to contain the following:

- a. Needs Assessment: Each plan must contain an assessment of the housing needs of all income levels of the community, as well as the locality's share of regional housing needs. This assessment is to contain an analysis of housing characteristics, including such things as:
 - *overcrowding, deterioration, and undermaintenance;
 - *an inventory of land suitable for residential development;
 - *an inventory of privately owned units that are suitable for conversion to social ownership;
 - *an analysis of governmental constraints imposed on the maintenance, improvement, or development of housing, including land use controls, displacement, building codes, fees and exactions, redevelopment projects, rehabilitation and preservation programs, and so forth;
 - *an analysis of the impacts of public sector redevelopment activities, private sector development, and gentrification; and
 - *an analysis of special housing needs, such as those of the handicapped, single parents, large families, farmworkers, the elderly, and low income households generally.
- b. Goals, Objectives, and Policies: Once a locality has assessed its housing needs, it shall include within its housing plan a statement of the community's goals, quantified objectives, and policies relative to the maintenance, preservation, and development of social housing which satisfy the identified housing needs.
- c. Housing Program: The local housing plan must contain a four-year schedule of actions which will enable the local government to achieve its housing goals and objectives. This action plan will rely on the locality's land use and development control powers, regulatory concessions and incentives, and the use of federal, state, and local financing. The local program must:
 - *provide adequate sites with appropriate zoning and development standards to develop a variety of housing for different groups, ensuring a balance between jobs and housing;

*minimize governmental constraints to maintenance, rehabilitation, and development of housing, including a review of such constraints as minimum lot sizes, design controls, parking requirements, second unit restrictions, exclusions against manufactured housing, and open space requirements;

*mitigate the effects of any public or private development activities;

*assist in the development of adequate socially owned housing for low and moderate income households, under the provisions contained of Sections III.A, B, and C of this Program;

*regulate private rental housing, under the provisions of Section IIII.D. of this Program; and,

*obtain meaningful public input in the preparation of the housing plan and any amendments thereto.

- d. Revision of Housing Program: The local government must establish a set of performance indicators for evaluating fulfillment of its housing plan, revising it annually as necessary. A thorough review and revision must be completed at least every four years.
- e. Individual Standing: Individuals and groups are granted standing to administratively or judicially challenge the adequacy of the local housing plan in state or federal court, and to demand that HUD examine the plan prior to approval or disbursement of federal funds. In any lawsuit or administrative hearing under this provision, the locality will bear the burden of demonstrating the adequacy of its plan, and federal or state courts will have the authority equivalent to that of HUD to block or delay grants to non-complying states or localities.

Chapter V:
Short-Term Measures

A. Tax Measures

Although parts of the Internal Revenue Code are ostensibly intended to encourage productive investment in housing, in fact they promote speculation and transfer wealth to upper income owners. The present tax system contributes materially to inflation in rents and prices, while costing the Treasury billions of dollars annually in revenues lost to income tax deductions and other loopholes. In this section these inequities are addressed by focusing primarily on federal tax laws, including the homeowner deductions, depreciation allowances, capital gains taxation, and tax exempt financing. A local property tax measure is also included, which could be adopted to satisfy federally mandated local housing requirements. Although state taxes are not treated in this section, it is recognized that parallel changes in state income tax provisions must accompany the federal income tax revisions.

1. Overall Objectives

The overall goal of the tax reform measures is to promote social housing goals, ending speculation in housing, and redirecting resources into productive housing investment in the social sector. The tax system is also rendered more progressive, through eliminating measures which are regressive or redistribute wealth upwards. Finally, to the extent that these measures generate increased public revenues, the revenues should be used to finance social housing programs. This is because the profits that are made (and taxed) on housing derive from the redistribution of wealth from tenants and some owners to other owners and financiers. Retaining the proceeds of housing-derived taxes within the housing sector thus redresses inequitable market mechanisms.

Housing tax reform, by itself, will not fund the entire housing Program. It does, however, have the potential of recapturing tens of billions of dollars lost to tax loopholes. These housing tax measures should be taken as part of a general Tax Reform Act, which would eliminate all tax sheltering provisions that do not contribute directly towards productive investment consistent with social purposes.

2. Homeowner Deduction

The homeowner deduction for mortgage interest and property taxes cost the U.S. Treasury an estimated \$49.4 billion in 1984. Allowing homeowners to deduct mortgage interest and property taxes is therefore extremely costly, while contributing to overconsumption and inflation in housing. Furthermore, homeowner deductions almost entirely benefit upper income owners, both

because homeownership is in part a function of income, and because those homeowners who do in fact itemize deductions fall almost entirely into the highest tax brackets. Only one quarter of all households claim the homeowner deduction, and that 60 percent of all benefits accrue to the top 10 percent of the income distribution.

On the other hand, it is clear that the homeowner tax deduction enjoys considerable popularity, and is widely if falsely perceived as being of general benefit to most homeowners. In the long run this Program will eliminate speculation in housing, greatly reducing price inflation and therefore the perceived need for homeowner deductions as a means of partially offsetting overpriced housing. In the short term, several measures are provided which extend the benefits of this deduction to all homeowners, while reducing its contribution to inflation and overconsumption of housing. In the long run this deduction will be eliminated, as part of an overall tax reform.

*As a first step, the homeowner deduction on second homes (such as vacation homes) should be eliminated.

*The homeowner deduction should be replaced with a tax credit and cap. This would make it available to the large majority of homeowners who do not itemize deductions, since tax credits are claimed directly on the 1040 form. The credit should be set at a rate equivalent to the tax bracket of middle income homeowners--around 25%. That is, 25% of interest and property tax payments could be used to directly offset other tax liabilities, regardless of the taxpayers' income tax bracket. A cap should be set on the amount of credit that can be claimed, based on median home prices, interest rates, and property taxes in the local housing market. Such an interim limitation will not generate large amounts of revenue, since at the same time it will extend tax benefits to a much larger number of households than presently claim them. It will, however, reduce housing demand at the top end, and thus have a dampening effect on inflation. It will also redress inequities in the present system, and likely be a popular first step towards the more far-reaching tax reform measures proposed below.

*In the long run, homeowner tax deductions should be eliminated. This could only occur, however, as part of a general tax reform, since the increased number of homeowners who would benefit from the interim measure would constitute a powerful lobby against its abolition. A sweeping federal tax reform, which closed off a wide range of loopholes and other inequities, would significantly lower the tax burden on low and middle income households. Since this would more than compensate the loss of the deduction to homeowners, the general tax reform could be tied to the repeal of the interim measure. At the local level, regressive

property taxes would be replaced with federal revenues raised through progressive income taxes and distributed locally, thereby eliminating that source of the deduction.

3. Depreciation Allowances

The notion that housing depreciates rapidly like other capital assets is a fiction of the Internal Revenue Code. Under the present law, one can fully depreciate rental structures over a fifteen year period; furnishings and certain fixtures are assumed to last only five years. While it makes sense to assume that adequately maintained plant and equipment may become obsolete over time and as a result require replacement the same assumption cannot be made with regard to housing. Well-built and maintained housing does not lose value through obsolescence, especially over relatively short time periods. While the costs of maintaining rental property are rightfully expensed or capitalized as ordinary business expenses, fully depreciating the property's value over 15 years provides a windfall to the owners of rental property, is costly to the U.S. Treasury, and encourages the holding of property as a form of tax shelter. While this is intended to stimulate investment, it in fact encourages rental housing to be regarded as another short-term component in an investment portfolio, to be bought and sold according to the immediate circumstances of the capital markets.

An even greater distortion is found in accelerated depreciation allowances. Under 1984 tax laws, one is allowed to assume that a disproportionate loss in value occurs in the initial years after the asset is acquired. For example, it is possible to depreciate as much as 46% of the value of an apartment building in the first five years after acquisition. Over the second five years only 29% can be depreciated, with the remainder (25%) depreciated in the final five. This provision strongly encourages those who hold rental property primarily as tax shelters to resell the property after a brief period, to another investor who will initiate the process all over again. Needless to say, accelerated depreciation fuels speculation and inflation generally.

The following measures are proposed:

- *As a first step, all accelerated depreciation for rental housing will be eliminated.
- *As an interim measure, ordinary (straight line) depreciation will be extended to 30 years and allowed only to those landlords who produce certification of code compliance and adequate maintenance, thereby giving evidence of good faith effort to maintain the quality of their rental units.

*In the long run, all rental housing depreciation allowances for the original cost basis will be eliminated, although provision will be made for depreciating capital improvements or deducting the cost of a replacement reserve. While there will undoubtedly be some reduction in private rental construction, the federal revenue savings resulting from the provision will fund offsetting social housing construction. The elimination of the depreciation allowance will remove a major incentive for speculative and inflationary trading in the existing private rental housing stock. Disinvestment resulting from under maintenance will be discouraged by Section III.D. of this Program, which requires compliance with local health and safety codes. Those owners who find themselves without incentive to continue investing in rental property will be encouraged to sell to social entities, under the provisions of Section III.B.

4. Capital Gains and Anti-Speculation Taxation

It makes little economic sense to give preferred treatment to capital gains realized upon the sale of land or housing. Capital gains taxation, like the depreciation allowance, is intended to encourage productive investment by reducing the tax liability of profits that are earned as a result of such investment. In the case of housing, however, it is difficult to argue that profits from sales result from such productive investment in the ordinary sense of the word. Rather, in most cases profits result from inflation alone--particularly inflation in the value of land.

In the long run, therefore, capital gains preference for income from the sale of rental housing should be replaced by a windfall profits tax, which would amount to a virtually confiscatory tax on all sales. There are several caveats to this proposal, however.

*A fully confiscatory tax on windfall profits would eliminate virtually all incentive to buy and sell existing rental housing. Since some private market reallocation of the existing stock may be desirable, a market mechanism for doing so would be provided by restricting the windfall profits tax to the 80% range.

*The windfall profits tax will likely have the effect of reducing the incentive to construct rental housing. To partially mitigate this effect, the tax will not be applied to the first sale of any building by its builder, in which case profit will be taxed at the ordinary rate.

*Similar considerations should apply to substantial rehabilitation or other capital improvements. Such investment is productive, and the resulting increase in value should be taxed at ordinary rates.

In the short run it is not feasible to replace the capital gains tax with an windfall profits tax. As an interim measure, therefore, an anti-speculation or dead transfer tax is proposed. Such taxes, which have been adopted by some localities, have tax rates which are inversely graduated according to the length of holding. Under the provisions of this Act, the gain on property held less than one year would be taxed at 95%, with the rate declining by 5% per year through the tenth year, and 2% per year thereafter, eventually levelling off at 10% for property held longer than 30 years. Such a tax would likely be politically popular, particularly if sales or profits below a minimal amount were exempted. Such a tax would have the advantages of raising revenues while discouraging speculation; this, in turn, would help cool off overheated housing markets, stabilizing neighborhoods threatened by rapid inflation. Such a tax would be a local tax adopted as part of a community's federally mandated Local Housing Program, with any funds collected earmarked exclusively for social housing programs.

5. Tax Exempt Bonds

As previously noted, tax exempt bonds are an inefficient and extremely inequitable method of providing below-market funding for housing programs. The Program in the long run will be replaced with direct grants for social housing construction. Until this occurs, however, tax exempt bonds will continue to provide some subsidy for housing programs. In no case should this method of funding be used for housing which is outside the social sector, whatever the income level of its target population.

6. Local Tax Reform

a. Progressive Real Property Tax

The property tax is regressive, since low income households pay a higher percentage of their incomes for housing than higher income households, and local assessment practices have been shown to exacerbate the inequities. This is particularly true in places where property values have inflated much more rapidly than incomes in recent years. (It should be recalled that rental property owners pay these taxes out of rents.) The wave of anti-tax measures, beginning with California's Proposition 13, is a response to these inequities; the benefits of such measures have gone largely to the wealthy.

In the long run, property taxes should be replaced with adequate local revenues derived from federal income taxes. In the shorter term, the property tax itself could be made progressive by charging higher tax rates for more highly valued property. Such a reform would apply to all residential real estate, including residentially-zoned vacant lots. A minimum exclusion

point, tied to local conditions, would provide circuit-breaker relief to low income homeowners and low income residents of private rental housing (in this case, rents would have to be controlled to assure that the tax savings were passed through to tenants). A portion of the local property tax should be earmarked for social housing programs.

The rate differentials need not be great to significantly enhance local revenues from property taxes. This tax would be one among the various possible local measures that satisfy compliance with federally mandated local housing obligations. In some states a constitutional amendment might be required prior to local enactment.

b. Luxury Housing Tax

A similar idea, more limited in scope, would be to charge higher taxes on certain classes of luxury housing, the proceeds of which would be earmarked for social housing programs. As with the progressive real property tax, this tax could be used to demonstrate local compliance with federally mandated housing requirements.

Principal features of such a tax would include:

- *A progressive tax on landlord's rental income from luxury units--that is, units that rent for more than a specified amount, the amount determined by median local tenants' incomes;
- *a progressive deed transfer tax on luxury rental units--that is, units that sell for more than a specified amount, based on local market characteristics; and,
- *a similar progressive deed transfer tax on luxury homes.

3. Financing Measures

1. Steering Private Credit Towards Social Housing Objectives

In the short run, the existing credit system will continue to be a major source of funds for all forms of housing. Some interim measures are therefore directed at providing lower cost credit within the present framework. While these measures will in fact secure some additional lower cost funding, they do not necessarily promote the social housing objectives of the overall Program. Since they are directed at the private rental housing stock, it is important to tie subsidies to continued affordability of subsidized units. On going control of rents and sales prices must therefore be a part of any subsidy proposed under this Section. A further requirement is that all properties which receive subsidies be offered for purchase to the social housing sector, at a specified price, after a designated period. The price and period would depend on the "depth" of the subsidy.

The following mechanisms generally entail various forms of subsidy within the private credit economy. To the extent that costs are borne by private credit institutions, they involve no significant cost to the public sector. They are intended to "steer" private credit towards social housing objectives by means of regulations, incentives, or disincentives, including the following:

- *The Community Reinvestment Act concept should be expanded and strengthened to include not only geographical responsibility, but also an affirmative obligation to meet the housing needs of low and moderate income and minority households, by expanding and upgrading the housing supply.
- *Differential taxes can be imposed on private credit institutions, with rate differences rewarding preferred types of lending. Revenues raised by such taxes can be targeted for use as direct grants to the social housing sector.
- *Loan setaside requirements, according to which lenders are required to invest specified amounts (e.g., 5-10% of assets) for designated social housing objectives.
- *Differential reserve requirements constitute another means of steering credit allocation. Under this approach, special reserve requirements are imposed for mortgage loans, with larger reserves for higher-cost mortgages. Low-cost mortgages could be exempted altogether, and lenders given a reserve credit for such loans as well. The mortgage reserve balances would be invested in low-cost housing. To the extent that lenders meet housing targets, the differentials would be reduced or eliminated.

*Finally, a below market interest rate requirement can be imposed on lenders, whereby a certain percentage of loans must be made at below-market rates for social housing purposes. This will result in an internal transfer (cross subsidy) among borrowers, whereby recipients of low interest loans would be subsidized by other borrowers. This approach ("inclusionary banking") is similar to inclusionary zoning, whereby developers are required to price a targeted percentage of units for low or moderate income occupants.

Given the increasing role of insurance companies, pension funds, and other non-banking institutions as a source of housing credit, care must be taken that these measures are not punitive towards traditional lending institutions. The legislation which creates such measures must apply them equally to all sources of credit, and carefully monitor the results to insure that the private credit economy is not destabilized.

2. Building on Existing Government Programs

There are a number of federal programs which could be modified to provide some social housing. In any federal project where private developers receive funding, such as through Urban Development Action Grants (UDAG), the provisions of this Act require that social housing be provided as a part of the project. Although the Act does not encourage additional public housing construction under its present form of financing, nor support UDAG or similar programs, it is recognized that these programs exist and can therefore be used to provide some additional social housing in the short run. For example:

*Urban renewal programs offer the potential for public acquisition of land as well as public control over the development process, and could thus be used to facilitate construction for social ownership, if the programs were made subject to adequate community control.

*Replace tax exempt bond financing with expanded direct financing through CDBG and UDAG programs. These two programs, despite their limitations, are existing mechanisms by which direct disbursements are made from the federal Treasury to localities for public purposes. Such financing should be limited to social housing programs.

*Turnkey-type programs, including the few remaining public housing projects under construction, can continue to provide units, so long as projects are subject to appropriate design and construction standards.

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ANOTHER LOOK AT HOUSING ALLOWANCES: A RESPONSE TO CHESTER HARTMAN

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Program experience with the Section 8 Existing Housing program and final research findings from the Experimental Housing Allowance Program have shown that, contrary to Chester Hartman's conclusions in his recent Journal article, housing allowance programs similar to HUD's proposed Housing Payment Certificate program are an effective way to provide housing subsidies for families in need of assistance. Comparisons with public housing and unrestricted cash grants show that allowances produce the largest increase in housing consumption per subsidy dollar, and the design of the Housing Payment Certificate program will assure that those subsidies go to families most in need. Criticisms suggesting an inadequate supply of affordable, standard housing are refuted by the Section 8 Existing record of 750,000 families now renting units on the private market. Finally, discrimination has not prevented these families from finding standard housing or moving to different neighborhoods. The Housing Payment Certificate program is proposed not as a substitute for the Department's current commitment to a range of housing programs, but rather as the vehicle for new assistance.

"Housing Allowances: A Critical Look," Chester Hartman's article in the March, 1983 issue of this journal, raises a number of questions regarding the Department of Housing and Urban Development's proposed Housing Payment Certificate program by finding fault with housing allowances as tested in HUD's ten-year Experimental Housing Allowance Program (EHAP).

Mr. Hartman's interpretation of the EHAP experience is in some cases based on reports that used preliminary data, and does not take into consideration the features of the proposed program that would affect the areas of his concern. Further, we believe that the final research findings from EHAP and surveys of the Section 8 Existing Housing program lead to a quite different set of conclusions. Housing allowance programs do work, and work well by every test—user satisfaction, efficient use of subsidy dollars, and ease and economy of administration. By basing the Housing Payment Certificate program on the experience of EHAP and the Section 8 Existing Housing program, the Department has been able to refine the program design and improve on those earlier, successful efforts.

The Certificate program proposed by HUD would provide rental assistance to very low income renters living in privately owned housing. For families chosen to participate in the program, the assistance payment would be based on the difference between a *payment standard*—the cost of modestly priced rental housing in a particular area—and the amount a household is required to pay based on family income and composition. A family may rent a unit for more than the payment standard and pay the additional amount. Conversely, a family may rent a unit for less than the payment standard without having the subsidy reduced. The

program thus contains a *shopper's incentive* which serves to contain any inflationary impact on rents and, more importantly, to permit assisted families the similar range of choice between housing and other needs that unassisted families exercise.

This response to Mr. Hartman's article will be limited primarily to replying, in turn, to each of the five points identified by the abstract: that only a small portion of the housing allowance is spent on housing; that those who most need housing assistance are least likely to be served; that the stock of vacant units is inadequate to meet demand; that landlords are not likely to repair substandard units; and that discrimination will inhibit mobility that is necessary to place recipients in standard units. In each case, we believe that the actual result is contrary to the implications of the article.

1. A larger portion of the housing allowance is spent on additional housing than in other programs.

Hartman indicates that a major drawback of the housing allowance program is that only a small portion of it is spent on additional housing. He implies that other programs produce larger increases in consumption per subsidy dollar. This overlooks the basic fact that one of the principal problems being addressed by the program is that of housing affordability. A family with rent burden in excess of 50 percent of income is in need of housing assistance as much as a family occupying a substandard unit, and the fact that they do not necessarily increase their housing consumption does not detract from the real benefit derived from the assistance. The number of such families is large; while 19 percent of very low-income renter families live in inadequate units, 51 percent have rent burdens greater than 30 percent of income.

However, if we accept Hartman's argument that an increase in housing consumption is the true measure of program effectiveness, housing allowances outperform other programs in this regard as well. Exhaustive studies done as part of EHAP compared consumption changes and found the relationships as shown in Table 1.

Table 1
CONSUMPTION CHANGES PER DOLLAR OF TOTAL PROGRAM COST

Type of Consumption	Public Housing	Housing Allowances	Unrestricted Cash Grants
Housing	.05	.13	.07
Other	.29	.71	.82
TOTAL	.34	.84	.89

Compiled from Mayo, 1979 and Mulford *et al.*, 1982.

Housing subsidies, either in cash or in-kind, have two types of impacts on families: They can (1) increase the *amount* of housing families consume or (2) lower the families' housing costs thereby increasing the money that is available for

other things such as food and clothing. *Amount* of housing refers to the value of space, amenities and other characteristics that are associated with a housing unit.

The total program cost for a housing program includes direct costs of providing these benefits to families, administering the program, and making interest payments on any bonded indebtedness. It also includes indirect costs such as foregone local property taxes and Federal revenue losses due to such factors as accelerated depreciation and tax-exempt financing.

In a housing allowance program, the only *overhead* cost is administration. As a result, 84 cents out of every program dollar flows through to the families in one form or another. On average, these families spend 13 cents increasing the *amount* of their housing in relation to their pre-subsidy dwelling, and 71 cents for the consumption of other things—thus reducing their rent burden to a more reasonable level.

In public housing (and other construction-oriented programs) a large part of the total subsidy dollar does not reach low-income families either in cash or in housing services because it goes to such costs as interest payments, indirect costs and administration. Only 34 cents of each program dollar results in housing benefits for recipients. The bulk of this benefit reduces rent burden, with only five cents used for increased housing consumption.

Since unrestricted cash grants are easiest to administer, the largest proportion of their subsidy flows through to the recipients. However, since this program is not earmarked for housing, most of it is spent on non-housing commodities and only seven cents is directed to increased housing consumption.

Dollar for dollar, housing allowances actually provide more housing to the recipient families than does a construction-oriented program—almost three times as much.

2. *Housing allowances do serve those who need it most.*

Subsidies under the housing allowance are determined by a formula that reduces the subsidy as incomes increase. As a result, the very poorest families get the largest subsidies while better-off families get smaller ones. In EHAP, families who were eligible for only small subsidies rarely applied. Families eligible for the largest subsidies were more likely to enroll.

Unfortunately, those families with the lowest incomes also generally live in the very worst housing. As a result, it is more likely that substantial repairs to their dwellings will be required in order for the families to qualify for payments without moving. In EHAP *these* families were likely to have lower participation rates. Nevertheless, the lowest income families are still the most likely to become recipients of assistance, and participating families were indeed poor: gross household income in 1979 was \$4,700 in Green Bay and \$3,380 in South Bend (Lowry, 1981).

To help assure that the assistance available under the Housing Payments Certificate program does reach those most in need, new families coming into the program must be very low income, i.e., have incomes at or below 50 percent of the area median. Priority in selecting families to be assisted will be given to those who have been displaced, are occupying substandard units, or have rent burdens greater than 50 percent of median income. Since the program will not serve all eligible families (unlike EHAP), and since there are already long waiting lists, it

will be possible to provide assistance to those most in need.

The administration proposes to continue, of course, other housing programs which will be supplemented by the Certificate program. The public housing program will continue, as will the Section 8 Existing program and the Section 202 housing program for the elderly and handicapped. In addition, ongoing commitments to more than 570,000 units in Section 8 New Construction and Substantial Rehabilitation will continue.

HUD's fiscal year 1984 legislative proposal would allow CDBG funds to be used for the construction of new housing where needed. The Rental Rehabilitation program, also part of the FY1984 proposal, will be another source of units added to the stock of standard housing and includes a provision to assure affordable rents in rehabilitated units. (Mr. Hartman correctly notes the value of structuring a rehabilitation program in this way.) Further, the rental rehabilitation program will be targeted to serve households not well-served by other programs, such as large families and the handicapped. Large families would also benefit from policies now under consideration to increase the proportional adjustment of the payment standard (and the Fair Market Rent for Section 8 Existing) for units with three or more bedrooms.

3. The stock of units is adequate to meet the demands of voucher recipients.

Since 1976, the Section 8 Existing Housing program has provided subsidies to low-income families in much the same way that is proposed for the Certificate program. During the ensuing seven years the program has grown rapidly. Now there are more than 750,000 families being served by this program throughout the country. Every year about 20 percent of these certificates change hands as families currently served leave the program for a variety of reasons. Thus the nation's housing markets have been absorbing about 140,000 new certificate holders a year. About half of these families received subsidy in their pre-enrollment unit, indicating that the landlord was willing to participate in the program and that the unit either passed the Housing Quality Standards or received improvements so that it could pass the standards. It is not necessary to have one vacant unit for each new voucher certificate added.

In any given year, the number of affordable units that becomes available is large; the turnover rate on units that are occupied by unsubsidized income-eligible families was 38 percent in 1980. This means that over 3.3 million units become available to new occupants. Of course participants in the Certificate program can lease any rental unit, not just those presently occupied by income-eligible families.

In 1984, new certificates proposed to be issued will be only a fraction of the households currently served and the additional demand on the rental market will be less than it was in the past. In addition, under the Certificate program we are proposing to remove the rent cap—a major factor that made units hard to find in certain communities under the Section 8 program.

4. Landlords will repair substandard units.

Our experience in the Section 8 Existing Housing program has shown that landlords are willing to make repairs averaging about \$200 to bring a unit up to standard so that a qualifying household can move in or remain in the unit and be assisted by the program. It is true that this will not rehabilitate a grossly dilapidated unit. However, the relevant question is, "how much repair is

necessary?"

Data gathered in the Annual Housing Survey suggest that about 80 percent of all housing units occupied by eligible households would either pass the Section 8 Housing Quality Standards or could be repaired in order to pass with the modest repair actions we expect the Certificate program to stimulate.

In EHAP, many of the needed repairs were made by the tenants themselves. The needed repairs generally required only a minimum of materials and a small amount of relatively unskilled labor. A wise tenant, when offered the prospect of a \$2,000 per year reduction in rent, can be expected to use his own effort to bring the unit up to standards.

The Housing Payment Certificate program is not a rehabilitation program. A separate rental rehabilitation program is being proposed for that purpose. Rather, the Certificate program will assist households in obtaining affordable units in standard or repairable condition.

EHAP research has shown that a program of annual inspections is necessary to maintain the quality of units and prevent deterioration. The Certificate program will contain this provision.

5. Discrimination will not inhibit mobility necessary to place recipients in standard units.

The success of the open enrollment programs in two of the EHAP sites, and the fact that more than 750,000 families in the Section 8 Existing Housing program have located standard housing throughout the United States, suggests that discrimination is not a barrier to program success.

In EHAP most of the mobility that did occur in response to unfavorable housing inspection reports was *within* neighborhoods rather than *between* neighborhoods. Mobility patterns in Green Bay, Wisconsin, which has virtually no minorities, were almost identical to the patterns in South Bend, Indiana, which has a substantial minority population and clearly demarked racial boundaries.

Both EHAP and Section 8 experience has shown that inter-neighborhood mobility is not necessary for recipients to find standard units. However, the Certificate program, without a rent cap, provides more opportunity for families to move if they so desire. (Further, the Certificate program will allow families with Certificates to move not only between areas but also between states while continuing to receive assistance.)

EHAP data also has shown that, in spite of possible discrimination, mobility does take place. Among movers initially living in the central city, 18 percent in Pittsburgh and 33 percent in the Phoenix experiments moved to the suburbs. In the Section 8 Existing program, data from a 1979 study showed that 89 percent of those who wanted to move did so.

The real question is whether discrimination will inhibit program effectiveness for minority families, and the best indicator of that is the participation of minority families in the Section 8 Existing program. In 1979, a study of the Section 8 program in urban areas (Abt, 1981) found that fully 50 percent of the Section 8 Existing recipients were minority households, which is about 6 percentage points higher than the proportion of minority households in the eligible population. In the New Construction program, by contrast, minority participation was significantly smaller than their representation in the eligible population. Only 31

percent of non-elderly recipients, and 11 percent of elderly, were minority households. This indicates that, far from being inhibited by discrimination, a housing allowance program actually performs better in serving minorities than do some project-based programs. This same study also found evidence of significant neighborhood racial deconcentration for minority households in the Section 8 Existing program—particularly for black households who move (who accounted for 61 percent of black recipients). On average, black households moved from neighborhoods that were 52 percent minority to neighborhoods with 40 percent minority residents.

OTHER POINTS

Throughout his article, Mr. Hartman makes assertions about EHAP and the Section 8 Existing Housing program that, in our opinion, are not borne out by research findings and program experience. To respond to the principal points among his assertions, we would like to note the following:

1. Mr. Hartman indicates that, the EHAP data notwithstanding, an allowance program could be inflationary and result in a "substantial amount of...subsidy...lining landlords' pockets." This is simply not true. In EHAP full-entitlement cities, five years of program impact produced a rent increase due to the program of only a fraction of one percent per year (Lowry, 1981). The proposed program is a continuation and modification of the current Section 8 Existing Housing program and will not approach full-entitlement proportions.

As evidence of the potential inflationary impact, Mr. Hartman quotes a study which reported rents rising at rates faster than the CPI rent index in certain metropolitan areas with high proportions of Section 8 Existing rental units. More recent studies have suggested that increases in such areas are actually quite unusual and do not relate to the level of program activity.

The reason for rent increases in the Section 8 Existing Housing program is the nature of the subsidy formula: the rent that a family pays is dependent only on the family's size and income. The family does not have to pay more if the housing agency agrees to pay the landlord a higher rent. There is thus no incentive to the landlord or the tenant to set a rent below this ceiling.

In the Housing Payment Certificate program, this flaw in the Section 8 Existing program will be eliminated. Subsidies will be based on the difference between the payment standard and a percentage of the family's income. Tenants will be free to rent units above or below this standard. However, since the subsidy will *not* vary with rent, rents below the payment standard will result in direct benefit to the tenants. This will create an incentive for tenants to negotiate lower rents.

2. Hartman suggests that the rent subsidy provisions of public assistance are a valid analogy to a housing allowance program, and cites information that a substantial portion of public assistance families are ill-housed. Yet, there is an important difference between public assistance and the Certificate program. Public assistance is not earmarked. There is no requirement that units be inspected and pass housing quality standards. The Certificate program will avoid this pitfall by requiring inspections.

It is interesting to note that while Hartman deplores the high rate of

deteriorated, unsafe, unsanitary or overcrowded housing among recipients of public assistance shelter allowances, he elsewhere argues that enforcing housing standards reduces participation rates in allowance programs and forces many who do participate to move. It is worth pointing out that a housing allowance program is the only type of housing assistance that offers families even the possibility of remaining in their own units. About half do so.

While enforcing standards does mean that some families may have to move, it is the only way to avoid the problem Mr. Hartman finds with public assistance shelter allowances. The inspections and housing standards insure that the Housing Payment Certificate program truly will be a *housing* program, producing increases in the quality of recipients' housing, and not simply an income transfer program.

The Housing Payment Certificate program addresses the major problem that needy families face: high rent burden. It does so while assuring that they live in housing that is decent, safe and sanitary.

3. Hartman contends that an allowance program will have a negative impact on public housing. But if the Section 8 Existing program with 750,000 units has not devastated the public housing program, why will the new program with a few technical changes and 10 percent additional units do so? HUD has no intention of abandoning the public housing program, as evidenced by Fiscal Year 1984 budget proposals for operating subsidies and modernization funds. It serves, and will continue to serve, an important segment of the low-income population. HUD is committed to channeling *new* program monies in another direction, however. This is why the Certificate program is being proposed.

4. Hartman suggests that traditional government housing programs produce additional housing for the poor. However, careful studies (Murray, 1979) have shown that there is a significant "substitution effect." Research on the Section 8 New Construction program found that 95 percent of the subsidized construction took the place of unsubsidized units which would have been built without the federal assistance. The program that produces the largest increase in housing consumption per tax dollar is one that earmarks the subsidy for rent and delivers it directly to the tenant or his landlord: i.e., the Housing Payment Certificate program.

SUMMARY

The Housing Payment Certificate program represents an addition to, not a substitute for, the significant federal investment in public housing and Section 8 New Construction and Substantial Rehabilitation projects. Our commitments to those projects will be maintained, and will assure that the investment continues to provide housing for the nation's needy families. However, future growth in housing assistance programs will be directed into the Certificate program because research and program experience have shown that it produces more housing benefits per dollar than any other type of program that has been tried.

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REJOINDER TO "ANOTHER LOOK AT HOUSING ALLOWANCES"¹

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Housing allowances do not perform as well as other subsidy approaches along many important dimensions. Limiting allowances to the very poor guarantees failure of the program, as it is the very poor who are least able to find decent housing on the private market. Studies of the Section 8 Existing Housing program demonstrate the inadequacy of the housing stock to meet low-income households' shelter needs. And the various forms of housing discrimination further reduce access to vacant units. Finally, the reduction in subsidy levels proposed in the Housing Payment Certificate program, compared with the Section 8 program, makes the program's "shopper's incentive" illusory. The program likely will result in higher rents and will exacerbate the affordability problem it was designed to alleviate.

I seem to be developing a minor career subspecialty of responding to and being responded to by housing and renewal officials.² Such interchanges usually make good, lively reading and help clarify, through the sharpening process of debate, real differences in positions, something especially true in this instance.

It will be easiest for readers if I respond to each of Abrams' responses *seriatim*:

1. *The impact of different government housing subsidy programs on housing consumption*: Whether housing allowances outperform other forms of housing subsidy, as measured by increases in housing consumption, is far less certain than Abrams would have us believe. Such cross-program studies have also been done with respect to the critical and related dimension of subsidy costs to the government: a careful 1980 GAO study concluded that "for units of the same quality, public housing is the least costly alternative over a 20-year subsidy life and it results in housing projects which are likely to provide service for much longer than privately owned section 8 units" (GAO, 1980:113; similar results are found in GAO (1978:117, 130-33).

The various studies Abrams cites that purport to document the superiority of housing allowances in regard to housing consumption are, for the most part, the exercises of econometricians and model-makers (Mayo et al., 1980; Rydell and Mulford, 1982). Although recipients' consumption patterns while in a program are directly observable, what patterns of consumption would have been without the program have to be estimated through use of assumptions and modeling techniques that are by no means as reliable as is implied by the precise and scientific language within which they are couched. (See Mulford et al., 1982:4-7 for a description of the byzantine methodology by which such estimates have been made; it is troubling, and I think not without significance, that the work of these econometricians is almost always presented in an obscurantist form, and that they either will not or cannot reduce their work to program terms readily fathomable by non-econometricians who work directly in housing.)

The alleged poor performance of traditional public housing in the comparison studies Abrams cites is attributed to "above-market development costs" (which are not demonstrated, particularly holding construction standards and quality constant) and to "cutbacks in privately supplied housing that offset almost nine-tenths of publicly supplied housing" (Rydell and Mulford, 1982:vi)—an alleged "substitution effect" I deal with separately below. A GAO study comparing public housing with Section 236 rental housing—like Section 8 new Construction, privately built with government subsidies (to the developer under Section 236, to the occupant under Section 8)—concluded: "It is also true that public housing is probably built to higher standards than Section 236 and that the inspection to these standards is probably more rigorous, but this generally results in a higher quality unit" (GAO, 1978:104).

Moreover, comparing the efficiency of housing certificates vs. public housing in terms of consumption patterns alone is grossly misleading. Subsidies allowing low-income households to live in private units owned by profit-maximizing landlords have no long-term benefits to the society at large; after 5, 20 or 40 years of such assistance the public has built up no equity, and possesses nothing. After 40 years of paying out subsidies for traditional public housing, the public owns, free and clear, a development with useful remaining life and the land it occupies. To compare favorably the immediate, apparent, small overhead cost of housing allowances with the apparently far higher overhead costs of public housing, which include one-time repayment of bonded indebtedness, is to ignore the obvious fact that private housing rents perpetually include a very large sum for debt repayment, and ignores as well the longer term social benefits of housing owned and operated on a non-profit basis.

2. *The question of who is and is not served by housing allowances:* Abrams notes that HUD's proposed Housing Payment Certificate program will serve only the very poor, those with incomes under 50 percent of the area median. In principle, I also favor allocating scarce resources to those most in need (although I find abhorrent the context of vastly limited social welfare programs that the Administration Abrams serves has put forward). But, as Abrams notes, unfortunately the very poor are likely to live in the very worst housing, and since such housing of course requires the highest repair investments to bring it to standard condition, their participation rates in the Experimental Housing Allowance Program (EHAP) were lowest. Abrams somewhat confuses the issue by stating that most housing aid went to the lowest income households. These households are, as he notes, more likely to need aid, and so the issue really is the extent to which those most in need are likely to receive aid, not the overall distribution of recipients by income. And on this score everyone acknowledges that housing allowances don't do so well.

Returning to the housing consumption question, a fundamental flaw in the Administration's reasoning is that, by restricting housing allowance eligibility to the very poor, the focus is on the group that, as shown by EHAP research and experience with the Section 8 Existing program, is least likely to use the money for housing, given their desperate financial straits. The very poor are also least likely to be able to find the housing posited by the model—mildly defective units that can be made standard with a \$100-200 investment and/or a little tenant

labor. The lower the income group, the more we need income supplement and redistribution programs, not housing grants.

It seems to me highly misleading for Abrams to boast that the Administration will continue other low-income housing programs. For the most part, they do so only because Congress did not allow budget cuts as extreme as the Reagan Administration proposed. Section 8 contractual commitments already in place cannot be abrogated. The relevant statistic is how much *new* budget authority the Administration and HUD propose for housing programs. And the 1984 budget proposes a 94 percent cut in the level of new HUD budget authority for assisted housing. The level of new budget authority for HUD's low-income housing programs is about 2 percent of what it was when President Reagan took office and 2 percent of the budget President Ford proposed in 1977, just before leaving office (Low Income Housing Information Service, 1983).

Abrams' references to HUD's other 1984 legislative proposals are similarly disingenuous. Adding new housing construction to the list of eligible Community Development Block Grant activities only increases already stiff competition for a static or dwindling pot of these funds (now being opened up to other newly eligible activities as well). New housing construction is very expensive and local governments are not likely to commit themselves to the long-term subsidies housing construction requires when they are assured of CDBG funds for only a few years.

And HUD's proposed Rental Rehabilitation program hardly fills the needs the housing voucher approach does not cover. HUD is asking a mere \$150 million for the entire program—enough for only 30,000 units nationally (at HUD's assumed cost of \$5,000 per unit, a per unit figure far too small to permit upgrading of a large proportion of the nation's seriously substandard stock). Analyses of the proposed program by the General Accounting Office indicate that "without adequate guidance, communities will devise rental rehabilitation programs directed primarily at the rehabilitation of housing units without adequate consideration of the benefits from such rehabilitation to lower income renter households" (GAO, 1983:3). Based on studies of housing rehabilitation activity under the CDBG program, the GAO (1982) cautioned that the rental rehabilitation program might induce gentrification and displacement effects—renovation beyond basic needs, inadequate controls over rent increases, and insufficient concern for whether current residents and others in the lower-income category can afford the renovated units.

3. Whether the existing housing stock is adequate to meet the demands of voucher recipients: Using turnover in the Section 8 Existing program to demonstrate the availability of adequate housing is terribly misleading. That 20 percent of Section 8 Existing certificates change hands annually is a statistic which by itself says nothing. We do know from recent studies that very high proportions of Section 8 Existing certificate holders in New York City and in the Chicago, Los Angeles, Hartford and Baltimore metropolitan areas are unable to find adequate standard units and that these unsuccessful seekers tend to be low-income, nonelderly, minority and larger households—particularly larger single-parent households (DeGiovanni and Brooks, 1982; Brooks and DeGiovanni, 1982). A 1978 HUD study of this program came to identical conclusions (Drury et al., 1978:16, Table 1). Why, if the supply of housing is adequate, is there so high a

drop-out rate from the Section 8 Existing program, with so many households unable to make use of the certificate they receive? And won't the drop-out rate increase markedly if, as discussed below, the payment standard is lowered?

Research shows that a very high proportion of Section 8 Existing units are substandard. A 1981 study of that program for HUD concluded, "....half of the [Section 8 Existing] program units still did not meet the program housing standards as they were interpreted for this study" (HUD, 1981:S-3). Although very high proportions of Section 8 Existing recipients were in pre-program housing that would not meet Section 8 Acceptability Criteria, amazingly, the proportion of recipients in units meeting these criteria does not drop much after entering the program, and about half of such recipients remain living under conditions below Section 8 Acceptability Criteria. Among recipients who move, the proportion in substandard units drops from 79 percent to only 55 percent; among recipients who stay in place, about one-fourth indicate they were required to have repairs made in order to meet Acceptability Criteria, and of these recipients, 82 percent were in substandard housing before entering the program, and 77 percent still were in substandard housing *after* entering the program (HUD, 1981:S-8). These findings don't say much for the housing allowance model of move-and-repair, and even less for the repair-in-place model.

More generally, I am truly amazed to find Abrams exhuming the thoroughly discredited "turnover" concept to demonstrate housing availability. Neither conceptually nor in the real world should housing turnover rates—the movement of households from one unit to another—be confused with housing vacancy rates—the existence of a supply of empty units in excess of the total demand for housing in a given market area. One can have very high turnover rates with no real vacancy rate—say, a village of 100 housing units, fully occupied by 100 households, among whom there is constant trading of quarters; conversely, one can have very low turnover rates with high vacancy rates—say, a village of 100 housing units, 80 of which are occupied by households, among whom with there is no movement, with little or no outside demand for the 20 vacant units. Turnover with a low vacancy rate is the housing market equivalent of musical chairs, only when the music stops the consequences are far more severe: overcrowding, doubling up, rent inflation, homelessness, or forced departure from the area. The musical chairs image is particularly apt, since in many local housing markets there is a constant reduction in the supply of rental housing available to lower-income households, through condominium and other conversions, luxury rehabilitation, arson, abandonment, undermaintenance and other market forces.

When I last came across a public agency trying to use turnover to justify a patently inadequate relocation plan—in that case, the San Francisco Redevelopment Agency, backed up by HUD, in that city's Yerba Buena Center urban renewal project—a federal court decisively and unceremoniously threw the plan out and ordered the Redevelopment Agency to add to the city's housing supply as the only way to meet their statutory relocation obligations.³ As far back as 1969, federal urban renewal law was amended to require that subsequently approved renewal projects replace any occupied low- or moderate-income residential units demolished or removed with at least an equivalent number of units for low- or moderate-income families (42 U.S.C. Sec. 1455(f), Supp. IV, 1968).

Quite simply, to cite (albeit without formal citation, so the statement is hard to verify) a 38 percent turnover rate in units occupied by unsubsidized income-eligible families as evidence that certificate recipients will be able to find suitable housing is myopic and dishonest. It does not deal with the issues I raised in my original article of matching characteristics of available units to the needs of those seeking units, by size, location, tenure, and price/rent. It does not acknowledge competing demand for these temporarily available units, where the true vacancy rate is low, as would be revealed by data on the duration of vacancies. It says nothing about the quality of units being vacated. I suspect that if there is a 38 percent turnover rate among this group, at least a substantial proportion of those movements are triggered by poor housing conditions, rent increases, demolitions and conversions, oppressive landlords, and other situations that render the turned over units either unavailable to or unsuitable for use by voucher recipients.

Finally, Abrams makes the curious argument that "since in 1984, new certificates proposed to be issued will be only a fraction of the households currently served," there will be little demand on the housing supply. While I suppose that supports his point that "the stock of units is adequate to meet the demands of voucher recipients," it hardly makes a compelling argument that vouchers are the way to go.

4. *Will substandard units be brought up to standard?* Abrams correctly poses as the relevant question, "how much repair is necessary?" Again, because the statement is so vague and unsupported, I do not know on what he bases his assertion that "data gathered in the Annual Housing Survey suggest that about 80 percent of all housing units occupied by eligible households would either pass the Section 8 Housing Quality Standards or could be repaired in order to pass with the modest repair actions we expect the Certificate program to stimulate." There is no item in the Annual Housing Survey that directly asks information on the degree of substandardness below Section 8 Quality Standards, and so Abrams must be inferring this conclusion (as his use of the verb "suggests" implies). Yet we are not told what this inference process is, the methodology by which the 80 percent figure is arrived at, or what the dollar equivalents are for the degree of substandardness inferred, and so there is no basis for testing his assertion. By lumping together in his 80 percent figure units which already are standard with those that are below standard, Abrams does not even break down his inference into meaningful elements for dealing with the question of whether landlords will repair substandard units.

Abrams notes, again without citation, that under the Section 8 Existing program experience has shown landlords are willing to make repairs averaging about \$200 to bring a unit up to standard. Not only does such an assertion, put forth as the typical case, elicit considerable disbelief, based on observation and experience, but that figure—presumably purporting to represent recent experience—is far lower even than what is suggested in an earlier HUD report on the Section 8 Existing program (Drury et al. 1978:xviii). This report, using 1976 figures, gave an average per unit repair expenditure of \$284, which translates to \$498 in 1983 dollars.

The thrust of Abrams' argument here is that the vast majority of housing defects are trivial items requiring little work or cash to cure. This is the "bannister" phenomenon—some specific and small housing code item that can be

purchased and installed for a minor sum, removing the minor technicality in the way of standardness. But surely this is not the usual situation in substandard housing in most housing markets—where decades of cumulative neglect and failure to modernize consign vast quantities of the housing stock to substandardness by today's criteria, unless new electrical, plumbing and heating systems are installed, structural defects are cured, stairways are replaced rather than merely supplied with bannisters, etc. Here we are talking of many thousands of dollars per unit in rehabilitation costs. Landlords of such properties—and they exist in very large numbers in every city, as any reader of this exchange knows from direct observation—are not going to participate in a housing allowance program, or the Section 8 Existing program, because the money isn't there to permit or induce major repairs. And the high rate of drop-outs from the Section 8 Existing program cited above—the inability of certificate holders to find units where the certificates can be used—reflects that reality.

Abrams then, after the two brief paragraphs critiqued above, makes the incredible argument that tenants will, and should, make these repairs themselves, rather than landlords having the obligation to provide decent premises, apparently disregarding the entire "warranty of habitability" doctrine that now prevails by statute and/or case law in 44 states (Blumberg, 1983). Even assuming the \$200 average figure Abrams posits (which of course means that in many cases the actual required amount will exceed that average), discretionary cash of this magnitude, as I noted in my original article, simply is not available to many low-income families (a fact someone with a \$67,000 annual salary may not appreciate, but a fact nonetheless). Many tenants may understandably be unwilling to spend their own cash and time doing what the landlord by law is required to do, even if such action is "wise," if they have no guarantee of secure tenure once this investment has been made. And Abrams' position clearly does not deal with those tenants—who represent a very high proportion, probably the vast majority, of housing allowance recipients—not "wise" enough to avoid being elderly, handicapped, single parents, or otherwise unable to find the time or exercise the skills needed for self-help repairs. Abrams seeks to rely on tenants to repair their own units, because in a tight market landlords will have little incentive to make those repairs themselves. But that surely is not a realistic option, or one that public policy should require.

Finally, Abrams concludes this section with the disclaimer that the "Housing Payment Certificate program is not a rehabilitation program" anyway. By this, he means it is not a program intended to instigate major repairs and renovation. Yet earlier he states that the program is for the lowest income group and that group lives in the worst housing. He can't have it both ways: If it's going to elicit only minor repairs, it can be used only by people living in easily and cheaply repairable units, which means the program is not going to serve the very lowest income group; if it is going to serve the very lowest income group, it must be capable of triggering major repairs, and, by Abrams' own acknowledgement, major repairs are not in the cards under this program. Raymond Struyk, John Tuccillo and James Zais of the Urban Institute (1982:409) arrive at a similar conclusion: "Emphasizing the affordability problem in program implementation, while

structuring housing assistance to serve a fixed number of recipients using the existing stock, can be expected to have little impact on housing quality."

5. *Is there housing discrimination, and does it inhibit use of housing vouchers?* Abrams' treatment of housing discrimination is perhaps the least convincing part of his rebuttal. It is a trivialized treatment of a critical issue. I honestly don't even understand the first four paragraphs of his point 5—they have little to do with discrimination and seem to confuse mobility and housing discrimination. Nor is housing discrimination the same as the distribution of benefits by race for a given program. Simply because minorities have used a program heavily does not mean they have not experienced extensive discrimination and that high proportions have not been able to avail themselves of program benefits because they find units barred to them. In fact, EHAP shows "minorities, and black households in particular, participated in Comparison Programs [owned public housing, Section 23 leased public housing, Section 236 with and without Rent Supplements] at a higher rate than they did in Housing Allowance Programs..." (Mayo et al., 1980:S-4). In EHAP's two "demand experiment" sites, participation rates among black, Spanish-American, and "other" (non-white) households were 21 percent (in Pittsburgh) and 30 percent (in Phoenix), compared with minority participation rates in those cities of 62 percent and 42 percent in the Comparison Programs (Mayo et al., 1980:30, Table 2-5).

The issue I raised was not who receives program benefits, but whether the model posited by the Housing Payment Certificate program—sovereign consumers free to choose among available decent vacancies because of added purchase power—was sullied by discrimination on the part of the various "gatekeepers" in the housing field, who will withhold housing from consumers able to pay the price if their family composition, household size, skin color, income source or life style is deemed undesirable. And on that score, Abrams can offer little in the way of refutation, because that, as we all know, is what the housing market is like (see Citizens' Commission on Civil Rights, 1983). And a racially discriminatory housing market can work its effects simply on the basis of widespread knowledge of the barriers and channeling mechanisms: HUD's summary report on EHAP concluded, "black households were also more likely than white households to say they avoided certain neighborhoods because of the *expectation* of discrimination" (HUD, 1980:37, emphasis in original). And the EHAP Demand Experiment concluded: "There is little clearcut evidence that Housing Allowances would either break up concentrations of the poor or lead to much greater racial integration" (Mayo et al., 1980:S-11). Even the President's Commission on Housing, whose first recommendation was introduction of housing allowances, warned: "Discrimination clearly impedes the ability of minority households to make full use of the program, either in terms of access to adequate housing or of freedom of locational choice" (President's Commission on Housing, 1982:20).

On Abrams' other points:

1. Abrams repeats the EHAP finding of no inflationary effect because so little new rent money was added to the local market, and since the proposed program "will not approach full-entitlement proportions" (an understatement, if ever I heard one), there will be no inflation.⁴ I agree. But were the program ever to approach a size proportionate to need, the issue would be quite different. A 1978

GAO study warned: "Another important consideration is that the use of the leasing approach on a large scale might have its own inflationary impact on rents beyond that of the normal escalation that could be expected in its absence" (GAO, 1978:132). And one of the more extraordinary findings of a 1978 HUD study of the Section 8 Existing program was that among recipients who stayed in place without any repairs being made to their units, gross rents increased on the average of 26 percent or \$33/month (Drury et al., 1978:65).

Another internal contradiction is Abrams' claim that the housing allowance program will not be inflationary because it is "a continuation and modification of the current Section 8 Existing Housing program." One of those modifications, as will be discussed below, is removal of the Fair Market Rent ceiling: landlords can charge what they want and still be eligible to house allowance recipients, and recipients can pay whatever they have to or feel like. Won't this change be inflationary, resulting in recipients paying higher proportions of their income?

2. My point about the public assistance program was that housing conditions of welfare recipients are poor primarily because of the nature of the housing market, and only secondarily because there are no housing standards. The existence of standards and inspections will, to be sure, improve the quality of housing voucher recipients compared with welfare recipients (or with a voucher program that does not have housing standards, as EHAP sub-experiments showed), albeit at the price of excluding large numbers of income-eligible people from the program. But, as numerous studies have shown (HUD, 1981:286, Table 6-4; GAO, 1979:ii), even with standards and inspections, high proportions of recipients nonetheless wind up in substandard housing. There is not enough available vacant housing either in sound condition or with such minor defects that \$200 and/or a wise tenant can make all the difference. Note too that, contrary to Abrams' assertion, I do not "argue" that enforcing housing standards reduces participation rates and forces many participants to move—I was citing an EHAP finding.

3. Abrams' argument about the relation of housing allowances to public housing ignores the context in which housing allowances are being introduced. By themselves allowances do not have a negative impact on public housing; the Section 8 Existing program co-existed peacefully with the public housing program in the late 1970s because there was no intention of decimating the latter program during that period. But the Reagan Administration wants and intends to do just that. Congressional hearings in March, 1983 (Bureau of National Affairs, 1983:882) revealed that HUD plans to reduce the existing public housing stock by 100,000 units over the next five years, 8 percent of the total stock; housing allowances make achievement of that deplorable goal infinitely easier.

4. The "substitution effect" argument is yet another piece of econometricians' narrow and value-less (both meanings intended) thinking. The argument basically is that there is a certain quantum of conventional housing investment funds, and that if government incentives direct those funds into Section 8 new construction, an equivalent or almost equivalent amount of funds will not go into unsubsidized housing construction. Even assuming the validity of the modeling that produces such findings, Abrams' argument ignores the possibility of other sources of housing investment funds that would not merely draw from a static source (direct

government lending and targeted tax-exempt housing bonds, for example). Murray's study makes clear, as Abrams' description of it does not (in fact Abrams misstates the finding), that "government financed subsidized starts as distinguished from conventionally financed subsidized starts have little or no impact on the availability of mortgage funds for financing unsubsidized starts ..." (Murray, N.D.:2-3). Thus, if subsidized housing is financed by local public housing authority bonds—the historic form of low-rent housing finance—mortgage revenue bonds or direct government lending, the substitution effect either disappears or is dramatically reduced.

Most important, this argument treats housing simply as a physical/capital resource, with all units fungible, and is indifferent to its users and beneficiaries. If the Section 8 New Construction program in fact has diverted housing production from unsubsidized construction for upper-income households to subsidized construction for lower-income households, that is a socially progressive substitution and one I welcome.

4. I add a new numbered point to my discussion of the Administration's housing allowance program, new because Abrams ignores it completely, but nonetheless central to any analysis of its potential impact: HUD's intention to lower the payment standard for housing allowances in a manner that will put it about 20 percent below the Section 8 Existing Fair Market Rent (FMR). Under Section 8 Existing, the FMR was based on the 50th percentile (median) of recently vacated apartments; as proposed by HUD, the housing allowance payment standard will be lowered to the 40th percentile, calculated not for recently vacated units (the relevant subset for those trying to use their certificates) but for all standard housing (including subsidized and rent controlled units and units in long-term occupancy which benefit from the rent discount for stability). If people are having a hard time using their Section 8 Existing certificates, think how much harder the search will be with markedly lower subsidies.

A careful study of the impact of these lowered payment standards in four metropolitan areas concluded: "The effect of reducing the Fair Market Rent by 20 percent at the next income recertification would be severe for Section 8 Existing households being converted to the voucher program and for households newly entering the program. Immediately following such a change, the rent-income ratio would be increased from a uniform 25 percent for everyone to a median of more than 35 percent in sixteen of the nineteen programs studied. As a consequence, half of the households in these programs would experience at least a 40 percent increase in the amount of money they would spend for rent under the program" (Brooks and DeGiovanni, 1982:ix). An Urban Institute review of the first two years of the Reagan Administration concluded: "There are two cases within housing assistance in which the administration's actions well may be inconsistent with the objective of improved efficiency... The second case involves the reduction of benefits to program participants that stems from several rather independent actions. These are particularly acute in the housing voucher program as proposed and may make it impossible for the program to achieve its housing objectives. This possibility is especially disturbing because this is to be the main vehicle for providing housing assistance in the future" (Struyk et al., 1982:416-17).

The irony is that these payment standards are being lowered in conjunction with introduction of the "shopper's incentive" feature Abrams touts so highly as

an improvement over the Fair Market Rent system of Section 8. Under the housing allowance program, recipients may rent any standard unit, rather than being limited to units renting at or below the established FMR. Should they be lucky enough to find something below the amount calculated as the local payment standard, they can pocket the difference (the "shopper's incentive"). They also are free to pay as much as they want from their own pockets, and in a tight housing market where tenants have little bargaining power and scant knowledge of market conditions, this is likely to be the much more common situation, for which HUD did not see fit to fashion a gimmicky name. Why this new feature will "contain any inflationary impact on rents," as Abrams claims, is not at all clear. One can as easily argue that the FMR under the Section 8 Existing program functions as a mild form of rent control and that without the FMR landlords in a tight market will have few constraints on arbitrary rent increases.

At any rate, this "freedom" to pay more will result in many households paying 35 percent, 40 percent, 50 percent and more of their income on housing—when, as Abrams notes, "one of the principal problems being addressed by the program is that of housing affordability." A similar conclusion was reached in the study of four metropolitan areas cited above: "The changes in procedures used to determine a voucher recipient's rent contribution...will exacerbate the very problem—affordability—that the voucher program is being designed to remedy and thus would appear to make the program unworkable or, at the very least, very unattractive to potential participants" (Brooks and DeGiovanni, 1982:ix).

In sum, I do not believe Abrams deals with the realities of the current housing market, which make certificates of very limited value, usable only in those few areas where there is a substantial genuine vacancy rate for decent or mildly substandard, moderately priced units. There are whole areas and entire classes of potential recipients—most notably, minority and large households and those living in truly substandard housing—for whom the voucher system will do little or no good. If we are to make progress toward the Congressionally mandated goal of "a decent home and suitable living environment for every American family," there is no alternative but to increase the supply of housing available and affordable to lower-income households, and to institute greater social controls over the profit-making instincts of those who control private-sector housing.

NOTES

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²See, "Rejoinder" (to comment on my article, "The Housing of Relocated Families," by Edward J. Logue, Development Administrator, Boston Redevelopment Authority), *Journal of the American Institute of Planners*, November, 1965, 340-44, "Omissions in Evaluating Relocation Effectiveness Cited," *Journal of Housing*, February, 1966, 88-89 (critique of 1965 Census Bureau-HHFA study of urban renewal relocation.); "Rejoinder" (to comment on my article, "Housing Authorities Reconsidered," by Dorothy Gazzolo, Deputy Executive Director, National Association of Housing and Redevelopment Officials), *Journal of the American Institute of Planners*, November, 1969, 437-38; "Comment" (on "Neighborhood Revitalization and Displacement: A Review of the Evidence," by Howard J. Sumka, Director, Community Planning and Neighborhood Studies Division, HUD), *Journal of the American Planning Association*, October, 1979, 488-91, followed by Sumka's rejoinder, "The Ideology of Urban

Analysis: A Response to Hartman," *ibid.*, 491-93; "The Yerba Buena Battle—What Are The Net Results?" (response to column by Wes Willoughby, Assistant Director, San Francisco Redevelopment Agency), *San Francisco Examiner*, "Other Voices," July 16, 1979.

²For a review of this history, see Hartman, 1974: 100-01, 126. The litigation referred to is *TOOR v. HUD*, 406 F. Supp. 1024 (N.D. Cal. 1970). In that case, two successive consent decrees signed by the Redevelopment Agency committed the Agency to add over 2,000 units of new or rehabilitated low-rent housing to the city's housing stock, both inside and outside the project area, to compensate for units removed through demolition for the renewal project.

³HUD Secretary Samuel Pierce, on the other hand, would appear to be misleading the public about the inflationary potential of housing allowances. In a letter published in the April 6, 1983 *New York Times*, Pierce stated, "our research also indicates that the widespread use of existing housing subsidies will not have an inflationary impact on the level of rents..." (emphasis added). The EHAP research, as I detailed in my original article, showed no such thing.

⁴Abrams cites Murray in his text as "Murray, 1979" and his bibliographic citation notes it is "forthcoming in the *Review of Economics and Statistics*." The copy of his article of the same title that HUD sent me, at my request, has no date and bears no indication of forthcoming publication, which explains the form of citation I have used.

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HOUSING ALLOWANCES: A CRITICAL LOOK¹

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The Reagan Administration would like to introduce housing allowances as the federal government's principal low-income housing program. The results of HUD's 10-year Experimental Housing Allowance Program suggest important structural limitations to this approach. Only a small portion of the housing allowance is spent on housing. An allowance is likely to least serve those who most need housing assistance. The stock of vacant units is inadequate to meet the demands of voucher recipients. Landlords are not likely to repair substandard units to meet this limited added buying power. And housing market discrimination inhibits mobility that might capture existing standard units. Additional evidence from the Section 8 existing housing and the public assistance programs suggest the limitations of the housing allowance approach. The true motivation for introducing housing allowances would appear to be a desire to withdraw the federal government from its traditional role as housing provider.

It is clear that the administration intends to substitute housing allowances for the past array of federally-subsidized construction and rehabilitation programs for lower income households. The Interim Report of the President's Commission on Housing, released in October, 1981, stated as its first recommendation, "...that the primary federal program for helping low income families achieve decent housing be a consumer-oriented housing assistance grant" (President's Commission on Housing, 1981:6). (The Commission's final report, issued the following April, of course retained this initial recommendation, albeit with a shift of nomenclature to "Housing Payments Program").² In December, 1981, the Office of Management and Budget proposed a complete transformation of the federal housing subsidy system, substituting allowances for existing programs. And, of course, the Reagan Administration's budgets have halted all traditional public housing construction and Section 8 new construction and substantial rehabilitation programs, and it seeks to reallocate (a much smaller pot of) federal housing subsidies to this new approach.

Why housing allowances? For one, they're cheaper than traditional public housing and Section 8 subsidies (although, as we shall see, they don't do the same thing). And with housing now the third largest social welfare program — after Medicaid and food stamps — a budget-cutting administration has its eye on this "big ticket item," particularly since subsidized housing production cuts in any one year produce savings in subsequent years as well. One stated aspect of the economy question has to do with "horizontal equity" — making sure that people in equal need are treated equally. The nation's housing programs have traditionally provided relatively large subsidies per recipient to a very small portion of households in need of housing assistance. Housing allowances are supposed to offer less aid per recipient to a larger proportion of those in need. Whether this is a real advantage, considering the true costs of providing decent housing, and whether in fact the administration intends to aid a larger number of households with its new approach, must be examined.

Another reason for the change is that housing allowances are more ideologically compatible with this administration than direct government construction, ownership and operation of housing; they reduce government's role and conform to the market model of sovereign consumers purchasing goods and services in a responsive market ruled by the mutually beneficent law of supply and demand. The not entirely happy or successful history of past government housing programs — gleefully exaggerated by critics, to be sure, but ridden with substantial and undeniable defects, even according to more sympathetic analysts — provides yet another rationale for a whole new tack. And finally there is a certain amount of common sense to this approach, in theory at least: to the extent the nation's housing problem is increasingly an income problem (that is, to the extent the primary problem is not a substandard housing stock but consumers' inadequate incomes to afford existing available housing), what government ought to be doing is providing housing-targeted income supplements.

Like most "new ideas" in the social welfare field, this one is not really all that new. Real estate interests proposed it in the 1930s as an alternative to the public housing program the New Deal administration was planning to introduce. And the federal Section 23 (leased public housing) and Rent Supplement programs of the mid-1960s embodied many features of the housing allowance. Moreover, the Section 8 program as applied to existing units is very close to the administration's housing allowance idea. What is new is the administration's plan to make this its central approach to housing subsidies, and to blue-line virtually all other programs.

E.H.A.P.

This fundamental shift in the federal housing role comes, almost fortuitously, at the same time that the results of one of the country's largest and longest social science experiments ever are being published. HUD's Experimental Housing Allowance Program (EHAP) was launched in 1970, under the Nixon Administration. The experiment covered three basic areas (supply, demand and administration), involved more than 30,000 lower income households at twelve sites across the country, who received housing allowances for 3-10 years, at a total cost of \$160 million. Books on EHAP have recently emerged from two of the country major urban think tanks. The Urban Institute's book, *Housing Vouchers for the Poor: Lessons from a National Experiment*, edited by Raymond Struyk and Marc Bendick, Jr., is a collection of treatments of individual aspects of the experiment, all written by Institute consultants or staff involved in the EHAP analysis virtually from the beginning, under contract to HUD. The Brookings Institution's book, *Do Housing Allowances Work?*, edited by Katharine Bradbury and Anthony Downs, emanates from a HUD-sponsored conference held at the Institution in November, 1979, at which eight papers were presented, along with prepared commentaries.

The most salient findings from the EHAP research, in terms of immediate policy concerns, would seem to be the following:

- Where the program is made available to all who meet eligibility criteria¹—the "Supply Experiment," mounted in the Green Bay (Wisconsin) and South Bend (Indiana) metropolitan areas — after four years only 42 percent of eligible

rent households and 33 percent of eligible homeowner households participated (homeowners were included only in the Supply Experiment).

- In the "Demand Experiment" sites, Pittsburgh and Phoenix, where extraordinary outreach efforts were made to contact a limited number of eligible renter households – the "Demand Experiment" did not offer benefits to all eligible renters – the participation rate among eligible renters contacted was a lowly 27 percent.

- While *enrollment* rates were higher for minority households and those with lower incomes, rates of *participation* (eligible enrollees who actually received housing allowance payments) – which in most of the experimental variations, as noted below, required meeting minimum housing standards – were lower for minority, poorer and large households and those living in poor quality dwelling units.

- In most of the sub-experiments, participation in the program was made dependent on meeting a housing quality standard. If the household was not already living in standard housing, the standard could be met by moving or having the defects cured. Where no housing quality standard had to be met (that is, where recipients could live in any housing of their choosing within the experiment area), participation rates were 100-160 percent higher than among households who had to meet a housing quality standard. Poorer, minority and large households, and those living in poorer quality housing, were even less likely to participate when forced to meet a housing quality standard. When housing allowance payments are not tied to a requirement that housing standards be met, approximately 2/3 of the recipients do not live in standard housing.

- The EHAP payments (averaging \$43 and \$59 per month for the two Demand Experiment sites and \$72 and \$78 per month for the two Supply Experiment sites⁴) could be used to purchase additional housing services (more and better space, a better location, etc.), to relieve the extremely burdensome proportion of household income most recipients were devoting to housing (averaging 40 percent prior to participation), or the benefits could be split between these two purposes. To the extent the second goal was chosen, the housing allowance of course is virtually identical to an income supplement: the housing allowance in effect replaces income otherwise allocated to housing, and the family's disposable income is increased by that amount, which is allocated to non-shelter consumption items. Data from the EHAP Demand Experiment (the one designed to test consumer behavior most carefully) show that only one-fourth of the allowance payment was used to obtain better housing; the vast majority was spent on other goods and services.

- Participation in the EHAP program triggered little mobility: very few households chose to incur the financial and psycho-social costs and uncertainties of moving, or saw moving as a realistic possibility, given the limited duration of the allowances (three years under the Demand Experiment, two years under the Administrative Agency Experiment, ten years under the Supply Experiment).

- The program did not produce negative market effects, that is, inflation in rents. Nor did it produce any positive market effects – stimulation of new construction or rehabilitation (beyond the minor repairs – requiring a cash outlay of considerably less than \$100 on the average – which the housing quality requirement sometimes triggered).

It should be obvious that study of the EHAP experiment can tell us a lot about what we can and cannot expect from this administration's move to adopt housing allowances as the way to treat the nation's growing housing crisis.

WHAT IT ALL MEANS

Let us step back for a moment and ask the obvious question of what it might mean that so many eligible households who enrolled in the program did not receive the intended program benefits. The key to understanding this result lies in the nature of the housing market itself.

Where people were not required to meet a housing quality standard in order to receive the payment and where there was no requirement that the housing allowance money be spent on housing, participation rates were very high — 87-90 percent in Phoenix, 78-82 percent in Pittsburgh—in those sub-experiments of the Demand Experiment category that had those characteristics. This is a straight income supplement program, and save for those households that do not hear of its availability or have principled or practical objections to it (paperwork and verification procedures, etc.), almost everyone will take the money that is offered, even if the subsidy is not terribly large or enduring.

It's when housing standards are introduced that participation falls off precipitously. Why is this? The housing conditions of enrollees were extremely poor. Only three out of ten households were living, at the time of enrollment, in clearly adequate housing. In Pittsburgh and Phoenix, 22 percent of households at poverty level incomes were living in housing that either was dilapidated or lacked complete plumbing, by Census categories. When inspections were made of the EHAP enrollees, an astounding 43 percent of all households were adjudged to be living in "clearly inadequate" units, and another 26 percent were categorized as "ambiguous."

How do the seven out of ten enrollees living in substandard housing participate in the program (that is, a program with minimum housing standards)? They either have their present unit brought up to standard or move. Some did the former, some the latter, but most did neither, and thus were "drop-outs." Again, the realities of the housing market offer a clear explanation.

One's current housing can be brought up to standard through one's own efforts or by the landlord. (However, if the problem is not physical condition but overcrowding — and 15 percent of the enrolled households in the Demand Experiment were "severely overcrowded" — then it is practically impossible to remove the substandard condition without moving.) Tenants are not likely to make the repairs on their own; they lack the capital and the security against rent increases and eviction. And by and large landlords will remove substandard conditions only if it's profitable, in part because other, unsubsidized tenants in the building probably would be unable to afford higher rents, and in part because the short-term nature of the subsidy (five years is the maximum likely under the administration's proposal) does not justify an investment that can be recouped only over a longer period. And the program, with its philosophically-based avoidance of governmental "interference" in the market, for the most part withheld sticks as well as large enough carrots.

A high proportion of the units in the EHAP experiment were so far below standard that it would have taken quite a large investment to remove the defects in any case. The EHAP results showed clearly that only people living in slightly substandard units were likely to meet the quality standards *in situ*, and, as noted above, the average cash outlay for such improvements was trivial.

Revealingly, in the EHAP site that took housing standards most seriously, Jacksonville (one of the Administrative Agency Experiment sites), the program got into trouble. In their Urban Institute chapter "Community-wide Effects of Housing Allowances," Larry Ozanne and James Zais write: "[O]perating the program in [the Jacksonville] market proved particularly difficult, and unlike other AAE sites, Jacksonville did not initially come near to meeting its target of enrolled households. Indeed, a second enrollment period was required in order to compensate for this fact...Jacksonville established what became effectively the most stringent housing standards in the AAE, adopting the entire city housing code as its standards and subcontracting enforcement of the standards to city code enforcers. Furthermore, Jacksonville[']s....housing stock contains a high proportion of units which did not meet the standard" (Struyk and Bendick, 1981:231).

The other way to meet the quality standard is to move. This model of how housing allowances enable people to secure decent housing posits a housing market in which there is a substantial and sufficient amount of moderately priced and standard vacant units; that filling these vacancies will not induce price inflation in the housing stock generally; and that owners of the vacant stock will not place price or other barriers in the way of low-income households with their limited allowances. That few persons in the EHAP program in fact moved suggests this model does not reflect reality.

A key issue is how willing people are to move. Moving entails considerable time and financial expenses. Moreover, moving from a place one has lived in for a while usually involves higher rents, as one gives up the "rent discount for stability" (reflecting landlords' tendency to raise rents more between tenancies than during a tenancy). And the costs of a second move must be added if the household is unable to support higher rent payments after the housing allowance ends. Finances apart, moving is not easy, with its breaks in friendship patterns, ties to institutions and commercial establishments, need to transfer children to different schools, and to get used to a new place and location. One notes with amazement that, with all its variations, none of the EHAP sub-experiments sought to find out whether subsidizing moving expenses or giving a compensation bonus for moving would have altered people's behavior.

But whether one can improve one's housing lot by moving depends in large part on the availability of decent alternative vacant quarters. And a most relevant EHAP finding is that "over half of the households initially failing housing quality requirements who moved over a two-year period, moved to units which also failed to pass" (Struyk and Bendick, 1981:111).

DO WE HAVE A HOUSING SURPLUS?

The fact question seems disarmingly simple: do vacancies exist into which people living in substandard housing, armed with housing vouchers, could move,

if so motivated? One would think this would be a fairly straightforward question to answer, given that vacant dwellings are quite large and immobile. But vacancy data have always been among the more mushy statistics in the housing field (and nowhere in the two EHAP volumes is there a realistic and honest discussion of the reliability of the all-important vacancy data used throughout). Vacancy figures are also quite ephemeral and self-limiting: when vacancy rates climb, builders stop building and owners of vacant units cut prices and use other concessions to attract occupants. And vacant units can rapidly disappear or become uninhabitable or substandard, through arson, vandalism or landlord "disinvestment."

Most of us, on the basis of common knowledge and observation, would not readily agree that our urban and rural areas are teeming with decent, unoccupied units. Just four years ago, the General Accounting Office issued a report titled *Rental Housing: A Growing National Problem That Needs Immediate Attention*. Given the very low rates of new rental housing construction, the conversion of hundreds of thousands of apartments to condominium-ownership (HUD, 1980), the loss of rental units to demolition and other forms of conversion, and the increasing rate of household formation in recent years, it is hard to believe the nation has seen a turnaround of what the GAO found. New York City's most recent triennial report on the rental housing market showed a sharp drop in its already alarmingly low 1978 vacancy rate, from 2.95 percent to 2.13 percent. In the largest rent category, \$200-249 a month, the vacancy rate was 1.8 percent, and in Manhattan the vacancy rate for all rental units was 1.9 percent. In every rent class the rate was below the 5 percent level that under state law is the "housing emergency" standard for continuing New York City's rent regulation system (Stegman, 1982).

Recently, some housing economists have argued that there is no real rental housing crisis (see Weicher et al., 1981). They point to the fact that in real dollars rents have declined relative to changes in the Consumer Price Index; that if there were a true shortage rents should be increasing relative to the CPI; that demand for rental housing has declined, particularly among middle- and upper-income households, as they turn to homeownership (in particular purchase of condominium apartments); that good quality units filter down to the growing number of lower-income households who get decent housing by paying a large fraction of their income for rent. But this position, based largely on housing market theory and deductive reasoning, neither squares with nor disposes of the obvious facts of low vacancy rates and the inability of lower-income households to capture the vacancies that do exist.

The vacancy rate issue, moreover, is not just aggregate numbers: it's whether the distribution of vacancies by location, size, tenure and price/rent matches the needs of those living in substandard housing. Vacant units tend to be small in size, leaving large households with few alternative resources. Matching is crucial in the vacancy game: a two-bedroom house for sale in the \$50-60,000 range is not a realistic option for a family of seven with neither resources for a downpayment nor the ability to obtain a mortgage or make the monthly payments such a loan would demand; vacancies of any type in Milwaukee are virtually irrelevant to needy families in Seattle.

Beyond sheer numbers, even when these are broken down properly, is the question of access. Simply because there is a vacant unit matched, by characteristics, to a needy household does not mean the two will get together. The realities of various forms of housing market discrimination — based on race, household composition, household size, source of income and so forth — and the many ways in which landlords, managers, brokers and other “gatekeepers” can practice this discrimination are too obvious to need elaboration. In the EHAP Demand Experiment, 60 percent of black households, and 53 percent of white households, reported some form of discriminatory treatment, on the basis of children, race, etc., in searching for alternative units where they could use their allowances. The Urban Institute volume also takes note of recent HUD studies, employing black and white testers, which show how subtle and unperceived the various forms of housing discrimination are and suggest that statistics on people’s reports of discrimination tend to understate the actual incidence of such behavior (Struyk and Bendick, 1981:127). The discriminatory character of the housing market was well revealed in the need to substitute Green Bay for Saginaw as one of the two EHAP Supply Experiment sites, “due principally to fear on the part of local officials that the program would promote black and other minority movement from the central city into their primarily white suburban jurisdictions” (Struyk and Bendick, 1981:332).

A pertinent historical note is that the 1968 President’s Committee on Urban Housing (the Kaiser Committee), which strongly espoused housing allowances, warned that “without ‘strong programs of consumer education and vigorous attacks on racial discrimination’ an allowance system could have adverse results” (cited and quoted in Struyk and Bendick, 1981:28). Regarding the current administration’s willingness to mount vigorous attacks on racial discrimination in the housing field, perhaps the most succinct comment is the headline from the February 13, 1982, *Washington Post*, thirteen months after taking office, that the “Administration Brings First Housing Bias Charges” (See also Kurtz, 1983).

WHY HOUSING ALLOWANCES AREN’T SPENT ON HOUSING

Let us turn now to examine why so little of housing allowance funds are devoted to housing. When one is poor, one is not just housing-poor, and it’s to be expected that on-the-margin households will wind up easing their heavy rent burden so they can have a little more for food, transportation, clothing and other of life’s necessities. Using housing allowance funds for non-shelter items reduced the average rent: income ratio of EHAP recipients from 40 percent to 25 percent.

Housing is not an easily adjustable expenditure. One cannot decide to reduce housing expenses suddenly by consuming one less room or not occupying the apartment for a few days, in the way one can rapidly and significantly reduce food expenses by eating less or cheaper types of food. The housing expenditure commitment is the largest fixed item in most personal budgets, and the consequences of not meeting that commitment can quickly result in massive disruption, and eventually additional expenses, from eviction. And so it is important for lower income households to keep housing expenses low.

The nature of the housing market is such that for people to spend more than they have to is perceived as a bad buy. Perhaps a further comparison with the

leading competitor for the housing dollar — the food market — can make this point most forcefully. With food stamps one can go to the local supermarket, and by and large act as a sovereign consumer. Leaving aside limits on what items food stamps can purchase and possible bad buys from the relative absence of supermarkets in lower-income areas and the poorer quality goods at the supermarkets that are there, one's \$50 in food stamps can purchase the same market basket of food that the next person in line with a crisp \$50 bill can. And the treatment one gets from the supplier is generally equivalent, regardless of the consumer's income, race or method of payment.

Not so in the housing market, by a long shot. A major barrier is discrimination, of course. As noted above, there is no way white and nonwhite renters or buyers have equal access to the available housing stock. And numerous studies have shown that the poor pay more, and the nonwhite poor pay even more (Cicarelli et al., 1972; Grebler et al., 1970; HUD, 1972). In terms of supply, there is no choice of decent, moderately priced housing suitable to the household's needs in most locales which compares to the rows of cereal boxes, frozen foods and vegetable bins. Nor are the suppliers of the commodities able and willing to respond to demand in equivalent ways. If a sudden increase in demand for Wheaties or chickens is created through food stamps, the various sub-industries will expeditiously meet that buying power. But the supply of housing will not respond quickly, if at all. Housing is too expensive, it takes longer inherently to produce, the resource constraints (construction financing, land, etc.) are too difficult to overcome, and the regulatory structure inhibits response. It should not be surprising to learn that about 70 percent of those eligible to receive food stamps receive them, roughly twice the participation rate in the EHAP program.

And so people don't choose to spend their housing allowance money on housing, not because they don't value housing, but, in large part at least, because they can't get good value for their dollar in the current housing market. They can neither induce significant improvement in their current quarters, nor find alternative quarters in that market.

Revealingly, with all the experimental variations of supply, demand and administration elements, apparently no serious consideration was given to taking one whole housing market and making sure, through a program of sticks and carrots, that the entire housing stock was brought up to decent standards — to creating a slumless city.⁶ A combination of true enforcement of existing housing codes, subsidized rehabilitation loans and outright rehab grants to make compliance easy for those who could not otherwise afford it (ideally with controls on maximum rents as a quid pro quo for receipt of government rehabilitation aids), backed by real enforcement of anti-discrimination laws, would have brought about elimination of slum conditions and shown how a sovereign consumer would behave in a non-exploitative market under something approaching truly equal supply-demand conditions.

ARE HOUSING ALLOWANCES INFLATIONARY?

A central question about a program that merely throws more demand money into a static supply of housing is whether this will induce inflation. Since EHAP recipients spent little of their allowance money on housing (in Green Bay and

South Bend, where supply effects were tested, the program increased total countywide rent expenditures by a minuscule 1.2 percent), hardly anything happened that could have produced an inflationary effect. EHAP in no way answers the question of whether a housing allowance program that aided substantially everyone who needed help and operated in such a way as to encourage additional tenant expenditures for housing would inspire landlords to raise their prices. Given what is known of the housing market and how suppliers operate under the profit system, it is hard to maintain that a substantial amount of this federal housing subsidy would not, absent government controls on the market, wind up lining landlords' pockets.

The two EHAP books contain some strange gyrations on this all important question. The Urban Institute analysis, while acknowledging the insignificant "demand shock" which the introduction of housing allowances had on the Green Bay and South Bend metropolitan area housing markets, inexplicably takes off to conclude that housing allowances are not inflationary. Co-editor Raymond Struyk's opening overview chapter poses one of the initial questions EHAP was designed to answer – "Would there be significant market responses to a housing allowance program? What would happen to the price of housing?" – and sweeps to the conclusion: "Thus, it is extremely unlikely that demand pressures would ever build up sufficiently to heighten market rent inflation in areas served by allowances" (Struyk and Bendick, 1981:15). And the Brookings chapter by Harold Watts, "A Critical Review of the Program as a Social Experiment," contains this non-sequitur: "The most important outcome of the supply experiment was that the size of the increase in demand was very small and that consequently there was little opportunity to observe the response of the various supply mechanisms to such a stimulus. This can be regarded as a finding of the first importance in that it provides assurance that market mechanisms can accommodate changes induced by a housing allowance program without precipitous price changes or other disturbances" (Bradbury and Downs, 1981:49).

On the other hand, John Kain, in his Brookings chapter, "A Universal Housing Allowance Program," reveals that in response to criticism that "market conditions in Green Bay and South Bend were qualitatively different from those found in large, old, decaying urban centers such as Detroit, Cleveland, or Newark...., HUD contracted with the Urban Institute and the National Bureau of Economic Research to adapt their housing market simulation models to an analysis of the probable market impacts of a full-scale housing allowance.... Both the Urban Institute and National Bureau of Economic Research simulations indicated that a full-scale earmarked allowance program might cause significant rent increases for both recipients and nonrecipients, and the bureau simulations pointed out the possibility that such a program might trigger large price declines and extensive abandonment in the worst neighborhoods" (Bradbury and Downs, 1981:358-359).

SOME ANALOGIES TO HOUSING ALLOWANCES

The closest thing to a housing voucher program now in operation is that portion of HUD's Section 8 program which subsidizes rents in existing sound units (as opposed to the Section 8 new construction and rehabilitation programs).

Several studies of the program are suggestive of problems a housing allowance program may produce. A January, 1982, report by Pratt Institute Center for Community and Environmental Development showed that 27 percent of New York City residents who were issued Section 8 existing housing certificates since 1976 were unable to put them to use, and that in the last two years that proportion has grown to 36 percent, in line with the city's ever shrinking vacancy rates. Minority households and families with children were least able to find a suitable unit to which they could apply their Section 8 rent certificate (DeGiovanni and Brooks, 1982). A 1979 General Accounting Office inspection of a sample of existing Section 8 units in Massachusetts, Illinois, Georgia, Arizona and California revealed that "42 percent contained one or more conditions which violated Federal housing quality standards and/or endangered the life, health, safety, or welfare of the occupants or the public" and that "conditions in 18 percent of the homes were so serious that they were not considered decent, safe, and sanitary" (Comptroller General, 1979:ii). And data assembled by Henry Schechter, the AFL-CIO's highly regarded housing director, suggest the inflationary effect housing allowances may have. Comparing changes in the Consumer Price Index rent index with the proportion of total rental units leased under the Section 8 existing program, Schechter found this relationship: in those metropolitan areas where higher proportions of the rental stock were absorbed into the Section 8 program, rents were rising at faster rates (Schechter, 1981).

Another relevant program to place side by side with EHAP is public assistance, which in effect is a housing allowance program, with little or no systematic official attention paid to how recipients fare in the housing market. As Martin Rein notes, "If the federal government were seriously to consider developing a housing allowance for low-income households, the experience of those on welfare could serve as a useful guide in anticipating some of the strains and difficulties that such a program might encounter" (Rein, 1972). Each state's public assistance grant has an imputed element that covers housing costs, or a portion thereof. No safeguards or housing aids are included; it is simply assumed people will fend for themselves.

Few studies exist of the housing conditions of public welfare recipients, possibly because welfare officials are not eager to know how poorly their clients are housed and how little good the money funneled through the system does in providing clients with decent living conditions. But the few studies that do exist are very revealing. A 1969 U.S. Department of Health, Education and Welfare study concluded that "on the basis of available data, it is estimated that at least one-half of all assistance recipients live in housing which is deteriorated or dilapidated, unsafe, insanitary, or overcrowded" (HEW, 1969). A more recent and localized statistic, from a special 1981 Census Bureau survey of New York City's rental housing market, is that 47 percent of all renter families receiving public assistance are living in housing in need of rehabilitation (Stegman, 1981: 9). And whereas New York City's Fair Market Rent (under the Section 8 program, established by HUD) for a 2-bedroom unit, including utilities, is \$407, the public assistance shelter allowance for a 4-person household (the number of people for a 2-bedroom unit) is \$218 (DeGiovanni, 1982).

THE IMPACT ON PUBLIC HOUSING

While the exact form the administration's housing allowance program will take cannot be precisely predicted, one real concern low-income housing advocates have is its deleterious effects on existing public housing projects, where over three million Americans live. Along with the virtual elimination of subsidies for new low-rent housing in the administration's budgets to date come substantial cutbacks in operating subsidies for existing projects, many if not most of which are in need of large-scale maintenance investment. Additionally, some 6,000 of the 106,000 vouchers for FY 1983 are earmarked for residents of public housing units that are to be demolished (See Hartman, 1982). Many localities would like nothing better than to get rid of some of their older public housing projects which, originally located on unappealing, out of the way sites, are now hot properties, due to gentrification, new transit lines and other changes. Alexandria, Virginia, is a prime example, where as a result of the Metro system and gentrifying areas like Old Town, developers and the city are teaming up to replace low-rent projects with upper-income residences and commercial uses. The ability to offer housing vouchers instead of project apartments will greatly facilitate that process. Permanent low-rent units will be removed, and replaced by short-term rent certificates.

The dynamics of what substitution of vouchers for existing public housing subsidies will do to that system are very complex, and depend on the particular form that substitution takes. Using as a model suggestions put forth by the President's Commission on Housing in its Interim Report, Michael Stegman, HUD's Deputy Assistant Secretary for Research under the Carter administration, played out the following scenario: "The most upwardly mobile families will leave public housing first, followed by others who are able to navigate in the local market. Enough tenants would leave their assisted units to assure the financial failure of many projects and local authorities...As local projects deteriorate still further, they will become centers of frustration, tension and unrest; more families will flee public housing, doubling up would increase in some cities and private market rents would be bid up...[M]ore and more poor people would have to pay very high fractions of their income for inadequate housing" (Stegman, 1981). An added irony to such a shift is that we may be seeing replacement of a program that disproportionately meets the needs of minority and elderly households by one that, as EHAP has shown, fails most when it comes to serving the needs of those whose housing problems are the greatest.

Another byproduct of the shift from public housing to housing allowances is the loss of many important tenants' rights, won after considerable struggle. Public housing tenants are now among the most protected class of tenants in the country, shielded from arbitrary evictions and from retaliatory eviction as a result of exercising their rights, guaranteed a notice and hearing when benefits are denied, and protected by a warranty of habitability that the quarters are decent, safe and sanitary, which can be used as a defense against eviction and grounds for withholding rent. Because these rights are not part of general landlord-tenant law in most states, tenants given housing allowances and moved from public housing, or given housing allowances as an alternative to public housing, will be deprived

of important protections, as these rights are not likely to be built into a housing allowance program, rooted as it is in free market principles.

THE NOTION OF A HOUSING ENTITLEMENT

Low income housing advocates could possibly support the housing allowance idea, even with its many shortcomings, if it were presented as an entitlement (President's Commission on Housing, 1982: 23) program — that is, if it were similar to food stamps and Medicaid, which, whatever their inadequacies and current curtailments, are designed so that anyone and everyone who meets eligibility criteria is entitled to receive benefits. No direct housing assistance program the government ever has mounted is an entitlement program. Cushing Dolbeare of the National Low Income Housing Coalition and others have suggested that we take a very narrow segment of the population — say, large female-headed households with incomes under 50 percent of the median, or the elderly of similar income levels — and agree to guarantee those people an entitlement to a housing allowance. That would involve a roughly predictable and reasonable budgetary outlay, would perhaps be politically acceptable, and would establish the principle for the first time of an entitlement to decent housing at an affordable cost. That opening wedge could then be expanded incrementally to different categories and higher income levels. But the President's Commission on Housing (1982:23) has specifically rejected the notion of housing allowances as an entitlement, and it is inconceivable that this administration would ever agree to such a principle.

Ironically, we do now have one entitlement program in the housing area, as Cushing Dolbeare has on many occasions pointed out: the tax system provision allowing all qualifying homeowners to deduct mortgage interest and property tax payments from their taxable income. Over 25 million tax returns had one or another of these indirect housing subsidies in 1981, at a cost to the Treasury, in foregone tax revenues, of more than \$39 billion in FY 1982. (By comparison, HUD's entire budget for that year was \$16 billion.) And the regressivity of this entitlement tax expenditure is enormous. Because of who does and does not itemize, and the relationship between ownership rates, income, and the tax rate structure, 30 percent of all mortgage interest deduction benefits go to the 5 percent of the population with annual incomes over \$50,000. This accounts for nearly two-thirds of all homeowner tax benefits. Ninety-two percent of all tax benefits go to taxpayers with incomes over \$20,000.

One of the more revealing aspects of the current debate over federal housing expenditures is how this vast and vastly regressive tax expenditure for housing remains unscathed through all the recent budget cuts and tax reforms. An October, 1981 Congressional Budget Office study, *The Tax Treatment of Homeownership: Issues and Options*, from which the above data are drawn, shows how simple reforms like putting a dollar cap on these benefits, eliminating them altogether for second homes, and converting them from a tax deduction to a tax credit would provide substantial additional government tax revenues and eliminate major systemic inequities, while having minimal effect on housing market behavior.

In summary, the reality seems to be that this administration is seeking to pull the federal government out of its traditional housing assistance role as rapidly and completely as possible, and the housing allowance idea is a major step in that direction. In sheer quantitative terms, the present administration's budgetary proposals involve additions to the subsidized housing stock amounting to considerably less than half of what the previous administration proposed in its final year budget. The rhetoric about "horizontal equity" would seem in reality to translate into "less aid for fewer people."

In an interview published in the November 6, 1981, *Washington Post*, right after release of the presidential housing commission's interim report, HUD Secretary Samuel Pierce outlined the administration's likely intentions: "We hope by 1984 or '85, that we will have interest rates down enough that it will stimulate housing so that we won't have to use the voucher system. We hope that maybe we'll even get out of that." It's obviously easier to terminate the nearly 50-year old federal role in housing lower-income households by getting rid of programs that have long-term commitments, like public housing and Section 8, substituting very flexible, short-term commitments, and gradually phasing them out.

It should be clear that housing allowances do not do the same thing that traditional government housing programs for the poor have done: produce housing for them. Thus, the argument that it's a cheaper approach is comparing apples and oranges. They are programs that do different things. The housing allowance program, as it's being presented, hardly merits being called a housing program. EHAP has shown that short-term housing vouchers aren't going to motivate anyone to produce new or substantially rehabilitated units, which, for all their defects, the older programs such as public housing and Section 8 did, with their 15-40 year subsidy commitments and direct public construction.

As capsulized in the Bradbury and Downs summary of the EHAP experience, "the ironic result is that the greater the need for physical improvement in community's housing inventory, the less its residents are likely to participate in a housing allowance program that includes physical standards" (Bradbury and Downs, 1981:379). If you live in good housing to begin with, EHAP shows that housing allowances are pretty much an income supplement; if you don't live in good housing, EHAP shows you're not likely to be able to take advantage of the program.

NOTES

¹Emily Achtenberg, Marc Bendick, Jr., Cushing Dolbeare, Robert Kuttner, Florence Roisman, Henry Schechter, Michael Siegman, and in particular Frank DeGiovanni provided helpful critiques of an earlier draft of this article.

²For a critique of the Commission's Final Report, see the author's review in the Winter 1983 issue of the *Journal of the American Planning Association*.

³Eligibility to receive housing allowances can be defined by various measures and with varying degrees of stringency. EHAP varied the standards somewhat for each of the three principal experimental subsets, Demand, Supply and Administration, but for each the three criteria were income/assets, household composition, and residency. To give a rough idea of EHAP constraints, (1973-74) income for a family of 3-4 ranged across the twelve experiment sites from \$6,000 to \$8,150; asset limits for renters ranged from \$5,000 if the household head was under 62 to \$10,000 if the household head was 62 or older, with corresponding homeowner limits ranging from \$20,000 to \$32,500 (counting the equity built up in the home); single persons generally were not eligible unless handicapped, elderly or displaced by public action; and only residents of the experiment area were eligible, with residents of publicly subsidized housing excluded.

*These figures somewhat overstate the net value of the payments to those recipients receiving food stamps as well, since housing allowance payments were counted as income in determining eligibility and payment levels for the food stamp program, thereby reducing benefits available under that program.

*This finding raises a broader, more disturbing question of whether our conventional measures of housing adequacy, as embodied in the Housing Census and HUD-Census Bureau Annual Housing Survey – the measures relied on for the generally accepted wisdom that the problem of substandard housing in U. S. society is no longer significant – may themselves be inadequate and are misleading us as to the real picture. Local housing codes are far more detailed and stringent than Census Bureau ratings, and they designate the legal standard that housing units must meet. Surveys of comprehensive code inspections for entire localities or neighborhoods are rarely done, and even more rarely reported. But the 1968 National Commission on Urban Problems (the Douglas Commission) undertook to survey twelve neighborhoods receiving assistance under the federal Concentrated Code Enforcement Program, areas which under federal granting procedures could not by Census ratings be severely blighted or slum areas, and found that 72 percent of the 31,000 buildings in these areas were in violation of the local housing code. In five areas the figure was at least 85 percent, and in one area it was 98 percent. In one of the Douglas Commission reports, Oscar Sutermeister concluded:

It is readily apparent that even the most conscientious user of Census data . . . would arrive at a total "substandard" housing figure which grossly underestimated the number of dwelling units having serious housing code violations. To use a total thus arrived at as a figure for substandard housing is grossly inaccurate and misleading, because it flies in the face of extensive considerations given by health experts, building officials, model code drafting organizations, and the local, state, and federal court system to what have become over a period of many years, the socially, politically, and legally accepted minimum standard for housing of human beings in the United States... (Sutermeister, 1969:83, 102).

*Morton Isler, in the Urban Institute book, does note that "in an environment of widespread code enforcement...the principal EHAP findings could change substantially. Participation would be likely to increase assuming minimum housing quality standards were built into the program and with it, aggregate program costs" (Struyk and Bendick, 1981: 284).

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Chairman GONZALEZ. Our next panelist has been most helpful to us previously, associate professor of economics, Elizabeth A. Roistacher, Queens College, City University of New York. Thank you very much for helping us again, and your presence here is very helpful and deeply appreciated.

STATEMENT OF ELIZABETH A. ROISTACHER, ASSOCIATE PROFESSOR OF ECONOMICS, QUEENS COLLEGE, CITY UNIVERSITY OF NEW YORK

Ms. ROISTACHER. Thank you very much, Mr. Chairman.

I am happy to have the opportunity to be here before the committee again. Today my comments are going to be mostly on the British experience with the Public Housing Sales Program and to see whether it provides a workable model for the United States.

My full statement is going to be submitted for the record, but I would like to present it to you in an abbreviated form.

In 1980 tenants living in British public housing were given the right to buy their dwellings, and by the end of 1984 well over 500,000 housing units, nearly 10 percent of the public stock, had been sold under this Right to Buy Program.

I would like to address three questions in my discussion of what might be possible in the United States. First, is the issue of feasibility. Can the United States design a sales program which makes sales both economically viable and also attractive to tenants?

The British public housing sector is quite different in physical terms, tenant composition, and in its share of the national housing stock. These aspects of British public housing have helped to render the program a success as measured by the high volume of sales. The situation in the United States is quite different, and thus feasibility is an issue.

Second is the question of viability as a homeownership program, by which I mean a program that confers on tenant-purchasers those benefits believed to be closely associated with homeownership, security from eviction, an ability to control the cost and quality of one's own living environment, incentives for efficient maintenance, tax benefits, and the best possible form of household saving.

The final thing I would like to address is of a much larger order. Is a sales scheme part of an effort to forge a fair and efficient housing agenda or is it rather an attractively wrapped package facilitating a further contraction of the Federal commitment to assist low-income people?

The British experience with the sale of public housing teaches us something about all three of these concerns. First, let me provide a little background on British public housing and the sales program. Britain's housing market currently reflects the Government's historic and active participation in this sector of the economy, a role which goes as far back as the early 1900's.

This intervention has taken two major forms. The first is rent control, and the second is the public provision of housing, principally by local councils or authorities. Hence, the more common use of the terms council housing or local authority housing.

In 1980, the year the current sales policy was instituted, 34 percent of Britain's households resided in council housing, another 13

percent lived in the private rental sector, and some 53 percent owned their homes or flats.

Council housing was provided not just for the poor but for a broad range of households. There is no income eligibility ceiling for council house tenancy.

Although there is no means testing to live in council housing, there are additional means tested housing rebates available to lower income households in all sectors.

Although the ideology behind public provision may have changed from government to government, even conservative governments have, in the past, emphasized public provision as a desirable and effective way to address housing shortages, particularly in the post-war years.

Council house sales began in earnest after the passage of the Housing Act of 1980, which introduced two important new rights crucial to an aggressive sales programs. The right to buy and the right to a mortgage from the local authority.

In 1980 there were over 6 million units of council housing in Britain, and nearly two-thirds of these were either detached, semi-detached, or terraced rowhouses.

Many of these units are of good quality and high amenity and not isolated in poorer neighborhoods. In particular, they often have their own garden, a highly valued item in British life. Purpose-built flats accounted for less than one-third of the public stock. The lower quality portion of the public stock is to be found among the flats, but a good many flats are of a high standard.

I have brought for you a number of photographs which I hope you have either seen or will get the opportunity to see, which give you some idea of the range of quality and style of council housing.

The median income of council house tenants in 1980 was just over 70 percent of the median for all households, and roughly 60 percent of the median for owner-occupiers.

Britain's poorest tenants tend to reside not in council housing, but in the private rental sector. In the United States, 1970 HUD data indicate that median income for public housing occupants was about 25 percent of the U.S. median.

Under Britain's right-to-buy legislation, council houses are sold on a discounted basis now ranging from 33 percent to 60 percent of estimated market value.

But in addition to the attractive pull of discounted prices council tenants have also been encouraged or pushed into buying because of sharp increases in council rents.

What are the characteristics of tenants who have purchased and of the units sold? Only 4 percent of units sold have been flats. While the Government is not monitoring the detailed characteristics of sales and purchasers, available evidence indicates that the purchased units tend to be among the higher quality portion of the council stock and that the purchasers are from among the better off tenants.

In sum, Britain's council housing tenants are relatively off compared to U.S. public housing tenants, and the public housing stock is relatively amenable to and attractive as owner-occupied housing. Substantial discounts on prices, as well as upward

sure on council rents, however, have been important factors in promoting the high volume of sales.

Because in the U.S. public housing tenants are generally relatively poorer than those in Britain and because the stock is not as well suited to individual ownership, a program of public housing sales here will require greater economic incentives to make it feasible and attractive for even the better off tenants to buy.

We start out with a public housing stock which accounts for less than 1.5 percent of occupied units. Data suggest that perhaps 2 percent of units are single-family, but another 40 percent are in duplexes or rowhouses, and those would be relatively well-suited to some form of ownership program.

HUD data indicate that over 91 percent of public housing tenants reported incomes below 50 percent of median income for the area in which they lived. And most households lack adequate income to cover current operating costs without additional subsidy.

Nevertheless, an analysis by Morton Schussheim of the Congressional Research Service does suggest that it may be possible to come up with a set of numbers which makes purchase feasible for a large number of tenants, if purchase prices are kept very low and if it is possible to bring down operating costs significantly through modernization of units and additional cost-savings believed to be associated with homeownership.

In the HUD demonstration outlined in the Federal Register last October, feasibility is promoted by allowing PHA's to discount prices almost to zero and to include in the demonstration tenants whose incomes are now above the income eligibility ceiling for entry into public housing, but who are currently residents of public housing.

A sales program of any significant proportion is certainly less feasible in the U.S. than in Britain. However, this conclusion by itself does not suggest that a public housing sales program which benefits a small group of low-income families is not a worthy objective. But what are the prospects for purchasers of public housing reaping the benefits of homeownership? The British experience is helpful in considering the issue.

Most British purchasers could afford the discounted purchase price and the operating costs and debt service on their new homes. But, some units were not in good repair when they were purchased, and owners are now finding that they cannot afford maintenance costs.

The problem is important enough for the Government to have recently considered a scheme of giving additional grants, very small ones however, of only £250, to purchasers who found themselves in such a position. There are two reasons for this problem.

First, there was no requirement that units be put in sound condition before being sold. The condition of the unit, however, is generally reflected in the market valuation, an effect which, together with steep discounting has allowed tenants with more marginal incomes to become purchasers.

Thus the up-front discount was seductive, but there was no provision for the consequences if tenants were not able to predict the potential pitfalls before them.

A problem with mortgage arrears is also developing. Data indicate that the mortgage delinquency rate for council house purchasers is more than twice the rate for mortgagers in general.

HUD demonstration guidelines for the sale of public housing are not totally insensitive to the problem of housing maintenance. The guidelines require that units put up for sale be in "sound condition" but such language does not guarantee that maintenance problems will not arise.

Even if tenants can cover operating costs at time of purchase, operating costs may rise faster than household income. Recent history should prepare us for this. After all, Congress had to pass the Brooke amendment introducing public housing operating subsidies in 1969 in response to just this problem.

The erosion of incomes relative to costs continued during the inflationary 1970's and has been the major weakness in the ability of the private sector to provide adequate housing for low-income families. And given that the economic expansion has yet to be effective in helping the Nation's lowest income families, the problem of income inadequacy is a serious one, even in a world of low inflation.

As for tax benefits, most of the households who might buy their public housing units would likely have little or no tax liability and therefore not reap the tax benefits associated with the deductibility of mortgage interest, assuming there is a mortgage involved in the sale.

But Britain shows us how this could be remedied. Low income households with no tax liability are able to receive a mortgage subsidy which is the equivalent of the tax relief given to a base rate taxpayer, one at the lowest marginal bracket, which in Britain, is 30 percent. This is really a refundable tax credit.

It is something that could be done to promote low income homeownership quite independent of a public housing ownership program and I would like to emphasize that a variant could even be designed to assist low income renters.

We can conclude then that public housing sales may be feasible, but we must design any such program to protect tenants so that they reap benefits from the demonstration and do not end up with housing they cannot afford to maintain or mortgages they cannot afford to pay, which could mean the loss of their homes. Clearly additional resources would be needed to be committed to an ownership program to make it work properly, especially with counseling and training for the new homeowners.

And this brings me to my third and final concern. Having addressed the questions of the feasibility of public housing sales and whether it will confer the benefits of homeownership on purchasers, the answer to each of these is a definite maybe—let me now try to broaden the focus and place public housing sales in the context of overall housing policy.

First, a look at Britain: The right to buy program was not carefully designed to prepare tenants for homeownership. Moreover, the Government has done little to monitor the effects of its policy apart from measuring and promoting the volume of sales.

Sales have been promoted by forcing up council rents. And at the same time that subsidies to lower income renters are

duced, tax benefits to owner-occupiers have actually been increased in Britain. The overall policy context is one which raises some question about the underlying purpose of the sale of council housing.

If the United States needs a demonstration of low-income homeownership for public housing tenants, and certainly that is preferable to a full-blown program at this point, why do we demonstrate on a public housing stock that is already a scarce social resource?

A homeownership scheme using the public stock would not only prevent these units from serving other low-income families at some future date but could also drain off funds from the shrinking slice of the Federal budgetary pie going to low-income housing.

Yet millions of other low-income households cannot afford decent housing and a growing number find themselves with no place to live. Using scarce public housing units to create a homeownership program for a small number of households would be desirable if it were in the context of expanding opportunities for other low-income families.

But if the context is one of contracting resources which we observe here and at the same time nonpoor homeowners continue to receive favored treatment through the tax code and in tax reform proposals, we must question the program.

In this context the sale of public housing looks less like a program to expand low-income housing opportunities and more like a well-packaged part of the administration's strategy to bow out of its responsibility to low-income households.

Chairman GONZALEZ. Thank you very much. I deeply appreciate that. I think that is the first real in-depth analysis we have had at this level. So I am very grateful to you.

Ms. ROISTACHER. Thank you.

[Ms. Roistacher submitted a prepared statement "Selling Public Housing: Should We Try? Who Will Buy? Lessons From Britain," for inclusion in the record.]

**SELLING PUBLIC HOUSING: SHOULD WE TRY? WHO WILL BUY?
LESSONS FROM BRITAIN**

**TESTIMONY OF
ELIZABETH A. ROISTACHER
ASSOCIATE PROFESSOR OF ECONOMICS
QUEENS COLLEGE OF THE CITY UNIVERSITY OF NEW YORK**

**BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
March 14, 1965**

**SELLING PUBLIC HOUSING: SHOULD WE TRY? WHO WILL BUY?
Lessons from Britain**

I have been asked to comment today on Britain's recent experience with public housing sales and whether it provides a workable model for United States. In 1980 tenants living in British public housing were given the right to buy their dwellings, and by the end of 1984 well over 500,000 housing units--nearly ten percent of the public stock-- had been sold under this program.¹ The popularity of public housing sales has been considered one of the major successes of the Thatcher government and has been suggested as a model for the U.S.

I'd like to address three questions in my discussion. First, is the issue of feasibility. Can the U.S. design a sales program which makes sales both economically viable and also attractive to tenants? The British public housing sector is quite different in physical terms, tenant composition, and in its share of the national housing stock. These aspects of British public housing have helped to render the program a "success" as measured by the number of sales. The situation in the U.S. is quite different, and thus feasibility is an issue.

Second is the question of viability as a homeownership program, by which I mean a program that confers on tenant-purchasers those benefits believed to be closely associated with homeownership: security from eviction, an ability to control the cost and quality of one's own living environment, incentives for efficient maintenance, tax benefits, and the best possible form

of household saving.

Finally, there is a remaining question of a larger order. Is a sales scheme part of an effort to forge a fair and efficient housing agenda or is it rather an attractively wrapped package facilitating a further contraction of the federal commitment to assist low-income people?

The British experience with the sale of public housing teaches us something about all three of these concerns.

First, let me provide a little background on British public housing and sales. Britain's housing market currently reflects the government's historic and active participation in this sector of the economy--a role which goes as far back as the early 1900's. This intervention has taken two major forms: the first is rent control, and the second is the public provision of housing, principally by local councils or authorities. (Hence, the more common use of the terms council housing or local authority housing.) In 1980, the year the current sales policy was instituted, 34 per cent of Britain's households resided in council housing, another 13 percent lived in the private rental sector, and some 53 percent owned their homes or flats. The decline of the private rental sector, which had sheltered 95 percent of all households at the beginning of the century, reflected, among other things, the disincentives associated with rent controls as well as the fact that council housing provided a well-priced and relatively attractive alternative to private renting. Council housing was provided not just for the poor but for a broad range of households. There is no income eligibility ceiling for council house tenancy. (Although there is no means-

teating to live in council housing, there are additional means-tested housing rebates available to lower-income households in all sectors.)

Although the ideology behind public provision may have changed from government to government, even Conservative governments have, in the past, emphasized public provision as a desirable and effective way to address housing shortages, particularly in the post-War years.

Council house sales began in earnest after the passage of the Housing Act of 1980, which introduced two important new rights crucial to an aggressive sales program: the right to buy and the right to a mortgage from the local authority. Prior to the passage of this act, sales had been permitted but were at the discretion of the local authority and subject to administrative approval of the central government. Local authorities had generally not been inclined to sell, so sales had been relatively insignificant prior to 1980.²

In 1980 there were over six million units of council housing in Britain, and nearly two-thirds of these were either detached, semi-detached, or "terraced" (row houses) houses. Many of these units are of good quality and high amenity and not isolated in poorer neighborhoods. In particular, they often have their own garden--a highly valued item in British life. "Purpose-built flats" accounted for less than one third of the public stock, many of these being in walk-up buildings of three or four stories. The lower quality portion of the public stock is to be found among the flats, but a good many flats are of a high

standard.

The median income of council house tenants in 1980 was just over 70 percent of the median for all households, and roughly 60 percent of the median for owner-occupiers. Britain's poorest tenants tend to reside not in council housing, but in the private rental sector. The median income for this sector is 50 percent of the overall median. In the U.S., 1979 H.U.D. data indicate that median income for public housing occupants was under 25 percent of the U.S. median.

Since 1980, over 500,000 council units have been sold to tenants on a discounted basis. The discounts now range from 33 percent to 60 percent of estimated market value. (The 1980 Housing Act allowed for a maximum discount of 50 percent; in 1984 it was amended to allow for discounts of up to 60 percent.) The longer a household has resided in the council sector, the bigger is the discount, with the 60 percent discount available to tenants who have lived in council housing for at least 30 years. Sales to date have been skewed toward households qualifying for the higher discounts.³

But in addition to the attractive "pull" of discounted prices (and some analysts have found that the market values to which the discounts are applied are underestimated), council tenants have also been encouraged or "pushed" into buying because of sharp increases in council rents. Between 1980 and 1984 the average council rent more than doubled, from £6.50 to nearly £15 per week.⁴ (In the U.S. the phase-in of the increased tenant contribution to rent from 25 percent to 30 percent of income would have a much slighter "push" effect toward purchase, if

available as an option.)

What are the characteristics of tenants who have purchased and of the units sold? Only four percent of units sold have been flats.⁵ While the government is not monitoring the detailed characteristics of sales and purchasers, available evidence indicates that the purchased units tend to be among the higher quality portion of the council stock and that the purchasers are from among the better off tenants.⁶

In sum, Britain's council housing tenants are relatively well off compared to U.S. public housing tenants, and the public housing stock is relatively amenable to and attractive as owner-occupied housing. Substantial discounts on prices, as well as upward pressure on council rents, however, have been important factors in promoting the high volume of sales.

Because U.S. public housing tenants are generally relatively poorer than those in Britain and because the stock is not as well suited to individual ownership, a program of public housing sales in the U.S. will require greater economic incentives to make it feasible and attractive for even better off tenants to buy. We start out with a public housing stock which accounts for less than 1.5 percent of occupied units. Data suggest that perhaps 2 percent of units are single-family, but another 40 percent are in duplexes or rowhouses.⁷ The rowhouses tend not to be as well maintained as the duplexes and single-family homes, but all these structure types are better suited to owner-occupancy than are larger scale apartment complexes.

H.U.D. data indicate that over 91 percent of public

housing tenants reported incomes below 50 percent of median income for the area in which they lived. And most households lack adequate income to cover current operating costs without subsidy. Nevertheless, an analysis by Morton Schusaheim of the Congressional Research Service does suggest that it may be possible to come up with a set of numbers which makes purchase feasible for a large number of tenants--if purchase prices are kept very low and if it is possible to bring down operating costs significantly through modernization of units and cost-savings believed to be associated with homeownership.⁸ The data do not allow a detailed analysis of feasibility. Characteristics of specific units and specific households cannot be matched. Nor can one be sure about potential cost savings. In the H.U.D. demonstration, feasibility is promoted by allowing P.H.A.'s to discount prices almost to zero and to include in the demonstration tenants whose incomes are now above the income-eligibility ceiling for entry into public housing.⁹

A sales program of a significant proportion is certainly less feasible in the U.S. than in Britain. However, this conclusion by itself does not suggest that public housing sales which benefit a small group of low-income families is not a worthy objective. But what are the prospects for purchasers of public housing reaping the benefits of homeownership? The British experience is helpful in considering this issue.

Most British purchasers could afford the (discounted) purchase price and the operating costs and debt service on their new homes. Nevertheless, there have been some problems evidenced in Britain which suggest caution in designing a sales scheme--

especially in the U.S., where public housing tenants are generally closer to the economic margin.

Two problems have arisen with respect to council house sales. First, some units were not in good repair when they were purchased, and owners are now finding that they cannot afford maintenance costs. The problem is important enough for the government to have recently considered a scheme of giving additional grants (very small ones, however, of only £250) to purchasers who found themselves in such a position. There are two reasons for this problem. First, there was no requirement that units be put in sound condition before being sold. The condition of the unit, however, is generally reflected in the market valuation, an effect which, together with steep discounting has allowed tenants with more marginal incomes to purchase. Thus the up-front "discount" was seductive, but there was no provision for the consequences if tenants were not able to predict the potential pitfalls before then.

A problem with mortgage arrears is also developing. Data indicate that the mortgage delinquency rate for council house purchasers is more than twice the rate for mortgagors in general.¹⁰ British mortgages are usually variable rate instruments so that rising mortgage rates add strain to all households' budgets but especially to council house purchasers whose incomes are lower than those of conventional first-time buyers. (Rates have vacillated quite a bit during the period 1980-85.) Again, the warning is that up-front discounts may seduce purchasers into untenable longrun positions, a message

especially familiar to this Committee given its concern with adjustable rate mortgages.

The H.U.D. demonstration guidelines are not insensitive to such problems: they require that units put up for sale be in "sound condition."¹¹ But such language does not guarantee that maintenance problems will not arise. Even if tenants can cover operating costs at time of purchase, operating costs may rise faster than household incomes. Recent history should prepare us for this. Congress passed the Brooke amendment introducing public housing operating subsidies in 1969 in response to just this problem. The erosion of incomes relative to costs continued during the inflationary 1970's and has been the major weakness in the ability of the private sector to provide adequate housing for low-income families. And given that the economic expansion has yet to be effective in helping the nation's lowest income families, the problem of income inadequacy is a serious one--even in a world of low inflation.

The question of whether the purchase of public housing will provide a valuable form of savings or investment for public housing tenants is an interesting one, but it is difficult to assess because it depends not only on the likelihood that their homes will grow in value at least as rapidly as inflation but also on how deeply house prices are discounted and whether households will be entitled to reap resale gains.

As for tax benefits, most of the households who might buy their public housing units would likely have little or no tax liability and therefore not reap the tax benefits associated with the deductibility of mortgage interest, assuming there is a

mortgage involved in the sale. But Britain shows us how this could be remedied. Low-income households with no tax liability are able to receive a mortgage subsidy which is the equivalent of the tax relief given to a basic-rate taxpayer (one at the lowest marginal bracket, which, in Britain, is 30 percent.) About one-third of council house purchasers borrowing from building societies (the equivalent of savings and loan institutions) have taken advantage of this opportunity.¹² This is like a refundable tax credit. It is something that could be done to promote low-income homeownership quite independent of a public housing ownership program (and a variant could even be designed to assist low-income renters).

What are the strong points in the British message? A good stock and non-poor tenants produced a successful sales program. This is buttressed by the push of rising rents and also by the recognition that a council house can be a good investment, given the general scarcity of rental opportunities in both the public and the private sectors. But on the negative side, problems with mortgage arrears and with inadequate income to cope with unforeseen maintenance problems have cropped up, and it is not clear how the government and lenders (local authorities and building societies) will accommodate these problems. But clearly, an inability to make payments could result in a serious housing predicament even if the family can sell its unit to pay off its indebtedness.

We can conclude then that public housing sales may be feasible, but we must design any such program to protect tenants

so that they reap benefits from the demonstration and do not end up with housing they can't afford to maintain or mortgages they can't afford to pay--which could mean the loss of their homes. Clearly, additional resources must be committed to an ownership program to make it work.

And this brings me to my third and final concern. Having addressed the questions of the feasibility of public housing sales and whether it will confer the benefits of homeownership on purchasers (the answer to each of these is a definite "maybe"), let me now try to broaden the focus and place public housing sales in the context of overall housing policy.

First, a look at Britain: The right-to-buy program was not carefully designed to prepare tenants for homeownership. Moreover, the government has done little to monitor the effects of its policy apart from measuring and promoting the volume of sales. Sales have been promoted by forcing up council rents. And at the same time that subsidies to lower income renters are being reduced, tax benefits to owner-occupiers have actually been increased.¹³ The overall policy context is one which raises some question about the underlying purpose of the sale of council housing.

If the U.S. needs a demonstration of low-income homeownership for public housing tenants--and certainly that is preferable to a full-blown program--, why do we demonstrate on a public housing stock that is already a scarce social resource? If the Administration has any real commitment to low-income homeownership, there are other models that ought to be considered before turning to the public housing stock. For instance Project

Home in New York City has sold units of F.H.A.-foreclosed housing to public housing tenants. This has freed up other public housing units for families on an enormously long waiting list.

A carefully planned homeownership scheme will require bringing down maintenance costs through modernization and additional revenues to address potential problems once tenants become homeowners. A homeownership scheme using the public stock would not only prevent these units from serving other low-income families at some future date but could also drain off funds from the shrinking slice of the federal budgetary pie going to low-income housing. Yet millions of other low-income households cannot afford decent housing and a growing number find themselves with no place to live. Using scarce public housing units to create a homeownership program for a small number of households would be desirable if it were in the context of expanding opportunities for low-income families. But the context is one of contracting resources for such needs, at the same time that non-poor homeowners continue to receive favored treatment through the tax code and in tax reform proposals. In this context the sale of public housing looks less like a program to expand low-income housing opportunities and more like a well-packaged part of the Administration's strategy to bow out of its responsibility to low-income households.

Notes

1. More than 200,000 units of public housing have been sold since 1980 in addition to these right-to-buy sales. (Department of the Environment, Her Majesty's Government.)
2. During the years of the 1970's, sales of council housing vacillated between a low of 2,600 units and a high of 46,000.
3. Discounts below market value are required to induce a tenant who is paying a below-market rent to buy a unit, but the discounts incorporated in the right-to-buy program are generally considered to be significantly deeper than the implicit rent subsidies to tenants, especially as council rents have been rising rapidly since 1980.
4. These rent increases were the result of a new method of calculating the amount of grants from central government to local government. Under a scheme designed to tighten control over local government spending a system of recommended rent increases and funding penalties have been jointly introduced which effectively pressure local governments to reduce the amount of money they raise through "rates" (property taxes) and to increase the amount they charge to council tenants.
5. These are actually leased to tenants for very long periods. The local authority remains responsible for carrying out repairs, but the tenant/owner is financially responsible.
6. Various studies by researchers outside of government have indicated these results. See for example, Ray Forrest and Alan Muria, "Right To Buy?" Working Paper No. 39, School for Advanced Urban Studies, Bristol University 1984, and J. Sewel, F. Twine and M. Williams, "The Sale of Council Houses: Some Empirical Evidence," *Urban Studies*, November 1984.
To date the government has done little monitoring apart from keeping track of the volume of sales.
7. Norton Schusheim, "Selling Council Housing to Tenants: How Feasible?" Congressional Research Service, December 14, 1984, p. 11.
8. Ibid.
9. *Federal Register*, Vol. 49, No. 208, October 25, 1984, pp. 43028-43034. Guidelines state that HUD can approve any sales price "—even for a lowest possible nominal price."
10. Unpublished data provided by the Department of the Environment of Her Majesty's Government indicate a six-month delinquency rate of .4 percent for conventional purchasers with loans from building societies (the British equivalent of savings and loan institutions) and of 1.4 percent for council house purchasers borrowing from local authorities or building societies. One major reason for the difference is that local

authorities have been required to make loans using more lenient lending criteria, although their mortgages are not subsidized and are now actually somewhat more costly than those of building societies. Households can qualify for local authority mortgages, to which each purchasing household has a "right," more easily than for traditional building society mortgages because the local authority is required to count the incomes of up to four household earners. Problems have arisen when earners have moved out of the purchased home, reducing the remaining household members' ability to cover their housing costs. ("When Owning Becomes a Nightmare," Roof, November/December 1983, p. 23.)

11. The guidelines also require that "all units for sale under the demonstration must be in sound physical condition or currently in the process of being rehabilitated with approved modernization funds with a viable plan presented to bring them into sound physical condition before sale." (Federal Register, op. cit., p. 43030.)

12. BSA Bulletin, No. 34, April 1983.

13. In Britain, mortgage interest tax relief is capped in terms of a maximum mortgage value. The Conservative government chose to increase the mortgage cap.

Chairman GONZALEZ. Our next witness is Stuart M. Butler, director of domestic policy studies, The Heritage Foundation, Washington, DC.

STATEMENT OF STUART M. BUTLER, DIRECTOR OF DOMESTIC POLICY STUDIES, THE HERITAGE FOUNDATION, WASHINGTON, DC

Mr. STUART. Thank you very much, Mr. Chairman.

I appreciate the opportunity to address this very important subject. What I intend to do in my testimony before you is to accomplish two tasks.

One is to try to stand back and really look from a distance, possibly as Dr. Hartman did, as to what broad role of Federal Government should be in the whole area of housing.

Second, I have provided an attachment which is also an analysis of the British proposal which I am also familiar with. Incidentally, I would add I don't find many disagreements at all, certainly not in the facts to that that was just put forward by Professor Roistacher.

It does seem this is a particularly good opportunity to look at the whole role of the Federal Government in housing. Obviously, when one has an administration beginning its second term, when one has a budget deficit crisis in this country, it is even more crucial to look at what overall role of the Federal Government should be in the area of housing.

That is what I would like to start by examining, before I look at the British proposal in some depth.

I think we must ask ourselves what is the broad role the Federal Government has. It seems to me if there is one statement that would capture it all it is to ensure that the population is adequately housed.

It is not, on the other hand, to ensure that the richer members of society become richer, nor is it, nor should it be designed to ensure the Federal Government takes the role of constructing housing.

The bottom line must be how do we ensure people are adequately housed. The role should follow from that and not be a purpose in itself.

I think in so doing one should recognize the housing market is a functioning market and housing is what one would call a private good, a commodity for which a market does exist, for which buyers and sellers trade and which they can rent and lease.

There is not anything fundamentally different between the housing market and most other markets. In that regard I would disagree very strongly with Dr. Hartman's analysis of the appropriateness of the market in housing. The basic problem is that housing is a market where there are segments of the community that can't obtain adequate levels of housing within that market. Therefore the proper role of the Federal Government should be to find ways of enabling those lower income and rather special cases in society to enter the market to obtain adequate housing for their resources.

This suggests really three approaches the Federal Government should take. First, that it should look at ways of providing means and resources to individuals so that they may enter housing mar-

kets, possibly even as buyers. That suggests to me the idea of vouchers should be a very fundamental part in the Government's approach to housing needs.

Through a voucher program one is in a sense immediately providing individuals with the means to enter the market like anybody else. They become consumers like anybody else. They have the power that consumers have to negotiate and to choose. They are not put in particular places where the Government decides to provide them with housing, nor are they dependent upon specific landlords who fit into particular Government programs.

So vouchers, I would argue, empower low-income people to be able to operate as anybody in the private market to obtain the housing they need.

On the other hand, it is not the appropriate role of Government to be primarily involved in the construction of those housing units. When it does then we have all kinds of problems associated with cost and decisions about where these particular units should be sited and so forth. An expanded voucher program would enable the market to operate to the benefit of people.

The second element of a Federal strategy that flows from the original point I made is that there should be a more effective use of the Tax Code in encouraging low-income ownership.

At the moment we have an unlimited deduction for mortgage interest, which channels most assistance to the segments of society that needs least assistance.

I would argue in favor of an elimination of the deduction. The administration has proposed capping it in its tax reform measures through the elimination of the deduction for a second home. I would also argue there should be a cap on the mortgage deduction for all homeowners.

I think one should combine that with the feature of the British method that has been mentioned effectively to allow a refundable tax deduction for low-income people, to give them the true benefits that were intended by the tax deduction. One would then have a tax treatment of mortgage deductions that would actually target most assistance to those who need it most, rather than the present system of most assistance to those who need it least.

So I would certainly argue that this committee should look very hard at the mortgage interest deduction and move in the direction that I suggest.

The third element, flowing from this view of the broad approach of the Federal Government, is to look at encouraging low-income buyers to purchase existing public housing units, and also generally to encourage tenant management associations.

As I mentioned I have provided a paper on the United Kingdom experience. Within that paper I have suggested a modification, bearing in mind many of the points made earlier about the reality of the British situation, for a form of low-income purchase program for public housing tenants in this country.

I suggest that such a program should center on the successful tenant management associations existing in the United States. Rather than seeing a purchasing program as an individual program for an individual buyer, as is the case in Britain, one should instead see the privatization of public housing in this country as a

way of moving the control of public housing and those units to community based organizations comprised of tenants within the projects.

I see the idea of selling public housing to low-income tenants in this country as a way of actually modifying the way in which low-income housing is provided, so that one moves away from Federal- and State-supported housing, to a system which it is administered through management organizations in the form of different types of arrangements, such as cooperatives, where the tenants themselves are the stockholders, and decide as to how the units are provided and to whom.

So, I believe that there is a very important distinction between the method being used in Britain to transfer ownership and the method I suggested, and I understand Congressman Kemp is suggesting this in his legislation.

You have already met with Kimi Gray and her people at Kenilworth Courts in the District, and therefore have seen some of the remarkable successes tenant managers can bring in terms of lowering costs. Some of the difficulties that have been associated with home ownership by low-income people in this country might be mitigated by the drastic reductions in costs that have been achieved through tenant management associations.

In the case of Kenilworth Courts, studies done at AEI show maintenance costs dropped by over a quarter and administrative costs dropped by almost two thirds. Such dramatic reductions in costs would enable a very wide cross section of public housing tenants to become owners under that type of arrangement.

I think there were a couple of things to bear in mind in looking at American versions of the British proposal. The intermediate position of utilizing tenant management associations as a precursor to a resident co-op is a very important element to bear in mind and I think should be at the basis of any discussion of any move towards tenant ownership of public housing. The experiment that is about to be undertaken by the administration, to examine the possibilities of ownership, are based on certain management associations. They should be looked at carefully and encouraged by the subcommittee.

Also one should be realistic about the attitude of PHA's in this type of matter. If one looks where control lies right now it is clearly questionable whether it is in the interest of PHA's as managers to allow control to slip from their hands into those of the tenants themselves, and so I am not surprised that many PHA's have a rather defensive attitude toward the idea of privatization of public housing.

One should always bear that in mind and therefore at least consider the right-to-buy aspect which puts the decision in the hands of the residents and not in the hands of the housing authority. Giving tenants the rights to buy is a very important element of the British proposal that should form a part of any operational program in this country.

In addition, some of the figures and data that are now available, including the Congressional Research Service study mentioned earlier, ought to be borne in mind. We are talking about quite a large segment of the existing population in public housing that could be

eligible for ownership under the kinds of proposals put forward by myself and in legislative form by Congressman Kemp. The Congressional Research Service suggested that of the nonelderly population given the kinds of discounts under discussion that as many as 30 percent of existing public housing tenants could afford to purchase under the terms being discussed.

I would like to end by making a couple of remarks about some of the issues that have been raised in argument against this idea of privatization of public housing.

The difference between the stock in this country and the income levels and those in Britain are quite correct. But it should also be remembered, as was mentioned, that in Britain public housing has really been effectively a social housing service. Almost a third of the entire population live in public housing and one of the purposes of the legislation in Britain was to begin to concentrate those public sector resources through lower income people in the community and not the blue collar, and in some cases middle class, population.

That is one reason why you find that the sales in Britain are concentrated on the upper level. That was an intended effect to move those people out of the public sector into the private sector where they properly belong.

Also another objection that has been brought up, and ought to be considered very carefully, is the impact of sales from public housing in this country on the general stock. I think this is a much more complicated question that is often suggested.

When you move a unit from the public sector to the private sector, that may have a lot of implications—not just simply removing a rental unit. For instance, I suggested that the proposal on this side of the Atlantic should go through the form of tenant management associations. One of the implications of that has been to stabilize entire communities—to stabilize the housing stock within them.

By entrenching ownership through the associations one may well have the effect of so affecting the social conditions within these projects that the deterioration of the existing rental stock may well be significantly reduced.

In the case of Kenilworth, of course, as I am sure you know, the impact of their efforts on reducing crime within the area, problems of broken families and so forth has been really quite dramatic. That could well translate with an ownership program into a stabilization of those units that remain in the rental sector.

The sale of units may thus have the effect of stabilizing the rental stock that is not sold in the same community. So we may well find that you can have your cake and eat it, so to speak. You may have sales taking place with the result that the entire stock of housing in the area is stabilized and improved.

And therefore, the community as a whole finds better housing available. In conclusion I would say that the experience of privatization of public housing on both sides of the Atlantic is extremely interesting in the sense of the implications of it in terms of its stability it provides to the community, and the effect it has on all the rental stock within the community, the implications it has for improvement within the communities social structure.

So it may well be a way of bringing about the quite significant improvements in neighborhoods. And I would say just as a final point that this whole approach of examining home ownership among these public housing projects fits in with the general point that I made at the very beginning—that it is the purpose of the Federal Government, in my opinion, to look at ways of providing people with a means to enter a private market and not to see itself as a development vehicle.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Butler.

[Mr. Butler's prepared statement follows:]

Testimony before the
Housing Subcommittee
of the House Banking Committee

Stuart M. Butler
Director of Domestic Policy Studies
The Heritage Foundation
Washington, D.C.

14th March 1985

My name is Stuart Butler. I am Director of Domestic Policy Studies at The Heritage Foundation. The following points represent my personal views on the issue of housing, and should not be construed as representing the position of The Heritage Foundation or any other organization.

Before considering the design of federal programs on housing, one must surely ask oneself the simple question - "Why should government be involved at all in the provision of housing?" Certainly it would be difficult to justify federal activity by arguing that housing constitutes some kind of national public good that can only be provided through a national government taking due regard of the national interest. Housing units are a private good, implying individual purchases or rentals for which an orderly and effective private market exists. True, there are external benefits associated with stable, well-housed communities, but these would be forthcoming from the private market -- they do not require federal action.

The justification for federal action thus stems not from any public good aspect of housing as such, but from the government's obligation to ensure that all citizens can obtain the basic necessities -- including food, clothing and shelter -- up to a standard deemed acceptable by society. Hence, if an effective market exists in housing, the approach of government should be to ensure that low income members of society can enter that market to secure adequate housing. It should not see its duty, on the other hand, as providing that housing as such.

What does this suggest for policy? A number of points that

should guide the formulation of housing policy by the Congress.

1) Congress should seek the most efficient means of providing low income Americans with the means to gain access to the rental housing market.

Either permitting or encouraging local rent control is not the way to accomplish this goal. Price controls induce shortages and dry up the very market government is seeking to make more available. When controls are placed on rents, landlords have the incentive to take units out of the rental market. Moreover, in the limited market, it is the rich and powerful who can best obtain units, and not the poor and weak. The federal government, therefore, should discourage rent controls by cities -- perhaps by linking housing assistance to a clear local commitment to decontrol.

On the positive side, and despite the Administration's apparent about face on the proposal, Congress should move forward with a comprehensive system of housing vouchers to replace all other programs, including public housing, currently designed to make units available to low income people. To reduce the possibilities of such a program becoming an uncontrollable entitlement, the voucher program should take the form of a block grant to states, with broad eligibility guidelines. The grants should be based on measured need and local housing conditions, but the states would be permitted to specify eligibility criteria, and even supplement funds for the program out of their own resources. Such a program would provide adequate means for decent shelter, increase price consciousness among both tenants and landlords (since at the margin, the tenant would be paying rent entirely from his own income), and avoid the costly problems associated with current programs such as Section 8 and public

housing.

2) Congress should reduce homeowner subsidies to high-income Americans.

Assuming that the federal government has a duty to encourage homeownership (a duty whose basis has never been clear to me) there would seem to be reason why it should have to exercise this duty without limit -- despite the arguments of the housing industry. The present system of mortgage deductions is indefensible. The progressive tax system means that richer Americans obtain the most help to become homeowners, and the more expensive the property the greater the assistance to the buyer. Moreover, there is every reason to believe that the reduction in the effective rate of mortgage interest brought about by the deduction is merely capitalized into higher housing prices -- witness the sensitivity of prices in recent years to changes in interest rates.

At the very least, there should be a cap on the mortgage interest deduction, with a view to the eventual ending of the allowance. If that were to occur, housing prices would fall, and the current imbalance in favor of housing over other forms of investment and consumption would be corrected.

3) Congress should encourage tenant management and tenant ownership of public housing.

If the country moves towards a voucher system, or some similar system, to allow low-income Americans to obtain adequate rental housing, the future of existing public housing must also be considered.

At the moment such projects are generally characterized by poor

management, social problems, and costly subsidies. Two avenues should be explored to ameliorate these deficiencies. First, the experience of tenant management should be examined carefully and a comprehensive effort undertaken to promote such innovative forms of management. If real decisionmaking is transferred to tenants, and if training is provided, tenant management has shown itself to be an excellent vehicle to bring down operating costs, stabilize the community, and to act as a catalyst for community approaches to solving local problems.

Second, Congress should take the lead from the Administration and evaluate the potential for tenant ownership of public housing. The attached paper on the subject examines the British experience and lays out proposals for the United States. A program of this kind would entrench and deepen the beneficial effects accruing from tenant management, and it would make ownership a possibility for even very low income Americans.

Mr. Chairman, I hope these observations help to focus the subcommittee's attention on what I believe to be the fundamentals of the federal role in housing.



June 12, 1984

PUBLIC HOUSING : FROM TENANTS TO HOMEOWNERS

INTRODUCTION

Public housing projects in the United States have come to epitomize urban blight. While this view is exaggerated, it is nevertheless true that public housing represents one of the great ironies of federal intervention. When the program began in the 1930s, the assumption was that the projects would help ameliorate social problems in the cities by stabilizing communities and the housing stock. The reverse has been true.

Yet there is evidence, in this country and abroad, that certain inner city housing experiments can have positive results. They all have one thing in common--ownership. Whether the program is homesteading, where abandoned properties can be bought for a dollar, or the discounted sale of public housing to tenants (in Britain), the effect is the same. When residents acquire an equity stake in the future of their building, and hence their neighborhood, they gain incentives to change their behavior from destructive to constructive and to urge their neighbors to do likewise. And instead of economic improvement bringing with it the threat of increased land values and displacement, equity allows a resident to rise with the tide--not drown in it.

But, some would argue, the low income of public housing tenants precludes their becoming homeowners. The solution to this apparent barrier is to recognize that support for homeowner-ship is entrenched in the tax codes. Thanks to the mortgage interest deduction, middle- and upper-income Americans have powerful tax incentives to become homeowners. This is no accident. The explicit purpose of the deduction is to help Americans purchase homes. Yet the low-income tenant, who pays little or no income tax, has no such incentive--so he must pay a far higher after-tax price than higher-income citizens buying exactly the same property.

Note. Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Congress and the Administration should recognize this inequity and establish a "Right to Buy" homeownership program in the inner cities, based on the sale of public housing buildings, at a substantial discount, to associations of occupying tenants. The Reagan Administration should establish an experimental program immediately using existing law. It should also seek legislation to permit tenant associations to apply directly to the Secretary of Housing and Urban Development (HUD) for permission to purchase buildings from their local Public Housing Authority (PHA). The legislation should also allow the Secretary to require the PHA to provide the tenant group with a mortgage.

Proponents of such a program would be blind if they overlooked its political advantages. A similar plan in Britain enabled Conservative Margaret Thatcher to make considerable inroads among traditionally Labor-voting public housing tenants in her landslide 1983 reelection. The New York Times noted after the election that:

As political experts and party strategists sift through the results of Labor's crushing defeat...more and more are identifying the "homeowner mentality" of voters...as a crucial development.¹

An inner city homeownership plan would extend the idea of owning a home to low-income Americans. It would help stabilize the value of public rental stock near-tenant-owned units, and would plant the seeds of improvement in the nation's most desolate neighborhoods. It would be a logical companion to the enterprise zone approach to inner city development. Like the zone proposal, which seeks to unlock the entrepreneurial spirit, the Right to Buy program would draw on the strengths of residents to tackle the problems of their own community.

THE BRITISH RIGHT TO BUY PROGRAM

During the last five years, over 500,000 dwellings (out of a total public housing stock of approximately 7 million units) have been sold to public housing tenants in Britain under the "Right to Buy" scheme. Widening homeownership in this way is seen by the Thatcher government as central to its objective of reviving neighborhoods and encouraging self-improvement.

Stated simply, Britain's Right to Buy program allows public housing tenants to purchase their units at a discount on the market value of up to 60 percent, based on the length of tenancy.

¹ "In Housing Policy, It Seems the Tories Had a Winner," The New York Times, June 22, 1983.

1) Eligibility

A tenant obtains the right to buy if he or she has been a public housing tenant for at least two years² and the unit is the principal home. The tenant can purchase the unit jointly with up to three other family members, provided they have been living in the same unit for at least three months.

2) Discount

If the tenant has lived in public housing for three years, the unit can be bought at the market value less 33 percent. The discount increases by 1 percent for each additional year as a tenant, up to a maximum 60 percent discount after 30 years as a tenant.³ The period counting toward the discount need not have been spent in the same unit, or even within the jurisdiction of the same housing authority. The valuation, upon which the discounted price is based, is calculated by the housing authority. If the tenant disagrees with that valuation, he can appeal to the District Valuer, an independent official whose decision is legally binding on both parties.

3) Finance

The purchaser has three options in raising the money to pay for the house.

a) The tenant can obtain a mortgage from a savings and loan association. Approximately half of all public housing sales are financed in this way.

b) The tenant has the legal right to a mortgage from the local housing authority. Basically the loan amount is limited to 2½ times the annual income of the purchaser, plus 1 times the annual income of any other family members assisting in the purchase. For purchasers over 60 years of age, the multiple is lower.

c) The tenant may buy the unit in stages. After buying at least 50 percent of the unit, with the usual discount according to length of tenancy, he can obtain full ownership by purchasing increments of 12½ percent. The tenant continues to pay rent on the portion still owned by the housing authority.

Like the purchaser of privately built housing, the public housing tenant-buyer can deduct mortgage interest payments from taxable income. The trouble has been that, if the low-income purchaser pays little or no income tax, the mortgage deduction is

² Decreased from three years in legislation passed in 1983.

³ Prior to the 1983 legislation, the maximum discount was 50 percent after 20 years.

practically worthless. Since April 1983, however, a low-income buyer in Britain has been able to utilize the Mortgage Interest Relief at Source Program. Under this, he can obtain a cash subsidy equal to the tax relief to which he is entitled (at the 30 percent lowest bracket), less the amount he can actually deduct from his tax bill--in effect a refundable mortgage deduction.

4) Value Recapture

A tenant-buyer cannot buy his unit one day with a 60 percent discount, sell it the next at the full market rate, and walk away with the difference. If the unit is sold within one year of the initial purchase, 100 percent of the discount must be repaid. This repayment requirement falls by 20 percent each year until, after five years, the unit can be resold without the repayment of any portion of the discount.

ANALYSIS OF THE BRITISH EXPERIENCE

The British program of public housing sales has been highly popular and had profound effects on many neighborhoods. As the program's proponents expected, signs of home improvement activity, close attention to maintenance, and resident involvement in neighborhood issues have become evident in communities where tenants are buying. The reason for this is simple, says Conservative Councilwoman Hazel Weiberg, "ownership gives them a greater stake in the community."⁴

Distribution of Housing and Sales

Approximately one-third of all housing in Britain is publicly owned rental accommodation. This is above the average for Western Europe, and far above the 1.5 percent in the U.S. In addition, the mean income of families in British public housing is not far below that of owner-occupying families, and it is a shade higher than families in private rental units. One reason for this is that local housing authorities cannot evict tenants whose incomes rise above the initial threshold for their unit. Moreover, the right of tenancy in a public housing unit in Britain can be passed on to an heir who has lived with the tenant. British public housing structures also differ from those found in American cities. While there are many examples of blighted high-rise properties, more typical is the well-built duplex or four-unit walk-up in a reasonably stable neighborhood.

The sales of British public housing reflect these characteristics. Data for 1982, for instance, indicate that the average

⁴ "New Law Transforms Britain Into a Nation of Homeowners," Wall Street Journal, September 14, 1983.

income of tenant purchasers was only 16 percent lower than that of all first-time house buyers in Britain, and 96 percent of public units sold were town houses, duplexes, or detached houses (only 4 percent were apartments). Nevertheless, sales were more common among lower-income public housing tenants than is usual for first time buyers. Forty-seven percent of public housing purchasers earned less than \$10,000 a year (34 percent for all first-time buyers), and 14 percent earned less than \$7,000 (9 percent generally).⁵ Not surprisingly, in view of the discount based on length of tenancy, the average age of the tenant-buyer (43 years) was significantly above the average for first-time buyers (31).

Multi-Unit Buildings

The data indicate that the bulk of public housing sales in Britain have constituted purchases of fairly desirable types of housing to tenants who would not be classified as very poor. So American policymakers should not assume that the typical Right to Buy sale involves a welfare mother buying her high-rise apartment.

Indeed, it is the high-rise apartment that has been the most difficult for local authorities to sell to tenants. British officials are quick to point out, however, that a high proportion of Britain's multifamily urban public housing was built after the Second World War with poor material and designs. Inadequate durability and structural problems make these units very unattractive for purchase, even at low prices. Would-be buyers in such buildings are inclined to remain on the waiting list for a more desirable property (using the waiting time toward a larger discount).

A second key factor is the unfamiliarity of the British with mechanisms such as tenant management or cooperative ownership. Tenant management is almost unknown in Britain, and cooperative ownership is rare. Consequently, say British officials, tenants have a strong resistance to the only forms of purchase and organization that are practical for low-income people in multifamily buildings. Even when a tenant buys his home in a 4-unit walk-up, the local authority usually retains the responsibility for the common areas and general maintenance (with a service fee), rather than have the owners accept this responsibility.

Lessons of the British Model

Despite such differences between the U.K. and U.S. situations, the British program contains important lessons for a workable approach on this side of the Atlantic.

The first is that a discount based on length of tenancy is a powerful stimulus and a means of favoring the most stable tenants.

⁵ Assuming one pound = \$1.40.

Initial fears that the discounts would provoke anger among working class buyers of private homes (who enjoy no such discount) proved groundless. The discount strategy has enabled many long established tenants to become even firmer anchors in the community.

A second lesson is that the resale value recapture mechanism is an important ingredient of the British program. It discourages rapid resale--which would undermine the otherwise stabilizing features of the program. On the other hand, the prospect of capital gain is important to a purchaser. In neighborhoods where market prices are not rising, or even falling, the sliding scale recapture provision in Britain allows for a potential capital gain within a reasonably short time.

The third lesson is that an American version of the British plan would have to overcome the problem of selling apartments to low-income tenants. Given the familiarity of Americans with cooperative ownership, this should present fewer problems than it has in Britain. Nevertheless, the high concentration of low-income people in American public housing would require more creative financing arrangements than are typical in Britain.

A PROGRAM FOR THE UNITED STATES

Since 1949, Congress has targeted the public housing program increasingly toward lower-income and welfare families, rather than those with modest incomes. Unlike Britain, therefore, the family income of a typical American public housing tenant is well below the national median--posing problems for any sales policy. Legislation does give a Public Housing Authority (PHA) in the United States the power to sell a "low income project to its lower income tenants." The sale price is usually based on the portion of the original development cost still outstanding--not the current market value. So discounted sales are permissible in the U.S.

This and other legislation have led to a number of home ownership programs for low-income tenants. The Turnkey III program, begun in 1968 and terminated in 1973, used the PHA framework to develop housing projects for sale, on a lease-purchase basis, to groups of public housing tenants with sufficient incomes to permit a sale without continued operating subsidies. The price was based on the total original development costs, and if the buyer were to resell the unit within five years of receiving full title, the PHA was entitled to recapture the capital gain according to a sliding scale. A requirement for success was the ability of the buyer to undertake basic maintenance and to accept the financial and other obligations of ownership.

Similar problems arose with the Section 235 Homeownership Program, another major federal initiative to encourage low-income homeownership through the sale of new or extensively rehabilitated units. The income problem was compounded in the case of Section

235 by the low (3 percent) down payment requirement--which could be in the form of "sweat equity" (that is, provided in the form of on-site work rather than cash). This meant that the loan-to-value ratio could easily come to exceed 100 percent in an unstable neighborhood--encouraging others to abandon their properties at the first need for substantial maintenance outlays.

The most extensive and perhaps most interesting low-income ownership program, however, has been the Indian Mutual Help Ownership Opportunity Program, which constitutes 61 percent of HUD assistance in Indian areas. Families or tribes must make a down payment contribution of at least \$1,500 toward each unit, in the form of cash, land, or work. The resident can acquire title to the unit, generally after 25 years, through a lease-purchase plan that allows equity to be built up gradually. The program has been very popular and effective, covering over 30,000 units.

Mutual housing associations (MHAs), as a homeownership vehicle for public housing tenants, have attracted considerable attention in recent years. Proposals are now being formulated in Patterson, New Jersey, for example, which would use the model to transfer 242 public housing units into tenant ownership. The title of the building first would be transferred to a mutual housing association made up of residents. This MHA would be affiliated to a city-wide MHA with a board of directors drawn from city officials and local organizations. This city-wide MHA could enlist support and provide technical assistance for would-be buyers, thereby improving the chances of successful ownership by individuals, who would be able to purchase title from the MHA.

THE PRINCIPLES OF A NEW OWNERSHIP INITIATIVE

Drawing on British and American experience in encouraging ownership among low-income tenants, principles for a successful homeownership program for public housing tenants emerge. Among them:

1) Discounts and Equity

It is clear from the problems associated with Section 235, and in contrast, the success of the British approach, that buyers must feel they have sufficient stake in their homes to justify expenditures on maintenance. Discounting the price (giving the prospect of a substantial capital gain) would provide that stake indirectly but effectively: a token down payment does not.

Current law permits HUD to sell to a resident tenant at a discount with the federal government paying off part or all of the existing capital debt. Similarly, units can be modernized without the tenant-buyer being required to pay the cost of modernization.

2) A Subsidy to Buyers

Some critics of discounted sales to low-income buyers charge that this constitutes an unfair valuable subsidy to the buyer. These critics overlook the mortgage deduction available to middle- and upper-income buyers--which is of little value to low income buyers. If the purpose of Treasury assistance is to help homebuyers, then a price discount on public housing would be a rational and equitable device to help low-income buyers. Depending on the discount chosen and the tax savings (if any) usable by purchase, a case could also be made--again on equity grounds--for some interest relief for low-income buyers. It would be reasonable for the interest payable on PHA-provided mortgages to be reduced by an amount at least equal to the lowest marginal federal tax rate.

3) Netting for Other Subsidies

Subsidy calculations should also be adjusted for the subsidies to other groups already included in the cost of public housing. American Enterprise Institute scholar John Weicher notes that studies suggest that new public housing units cost about 25 percent more than comparable private housing. The major reasons for this are the high tax revenue costs associated with tax-exempt financing often used in such projects (a subsidy to higher-income investors) and high construction costs due to the application of the Davis-Bacon Act (a subsidy to construction workers).⁶ There seems little justice in forcing low-income homebuyers to cover the capital cost of a subsidy to Americans earning well above their income. The cash basis for any calculation of purchase price, therefore, should net out such subsidies.

4) Developing Homeowner Attitudes

A major problem associated with low-income buyers, even if financing can be arranged, is that they often lack the maintenance and accounting skills needed for homeownership. On the other hand, some remarkable successes have been achieved with tenant management associations as vehicles to encourage sound maintenance techniques--especially when cash incentives were utilized. As head of Newark's public housing in the 1970s, for instance, Tom Massaro sought to cut costs by inviting tenants to take over many responsibilities. For every dollar this saved the city, the tenants were allowed a portion to finance community activities. The result: vandalism and utility costs plummeted and tenants acquired useful maintenance skills.

Another tenant management association in Kenilworth Courts, Washington, D.C., has achieved dramatic cost reductions by training

⁶ John C. Weicher, Housing (Washington, D.C.: American Enterprise Institute, 1980), p. 59.

its own tenants in management and maintenance skills. A preliminary study by the American Enterprise Institute's Neighborhood Revitalization Project found that within one year of the 1982 turnover to tenant management, administrative costs were cut by 63 percent, and maintenance (the major outlay) by 26 percent. In addition, rental income was increased significantly, thanks to improved collection and reduced vacancy rates, such that the project began to run a healthy operating surplus.

Success as a tenant management association could be a sensible prerequisite to apply to a group of public housing tenants wishing to purchase as a cooperative. An alternative requirement would be the creation of a private Mutual Housing Association, as that suggested in Patterson, New Jersey, to provide management assistance and training to achieve operating cost reductions. The tenants would be members of this association, which could foster cooperative or any other suitable form of tenant ownership. Another equity-building approach would be for the tenants to enter into a lease-purchase agreement. The operating subsidy would then be capped, and savings achieved by the tenants would be accumulated as equity shares until the full purchase could be accomplished, whereupon title would be transferred.

The savings achievable through tenant management is critical both to the success of any ownership plan and to the number of tenants that could hope to utilize it. Most studies of the potential for ownership among public housing tenants suggest that it is very small. But these calculations ignore the substantial reductions in cost that can be achieved--if tenants have an incentive--and thus grossly underestimate the possibilities of ownership.

A PUBLIC HOUSING HOMEOWNERSHIP PROGRAM

The Administration, utilizing existing law and with the agreement and cooperation of communities and PHAs, should experiment with a homeowner program for public housing tenants. The President should make it clear that the objective is not to raise income but to promote ownership in poor communities. Special buildings for the elderly or the handicapped should be excluded from the program, so that the number of such units available for rent would not be reduced.

In addition, Congress should enact a "Public Tenants Right to Buy Program." The measure should give groups of tenants the right to be included in the homeownership program, even if the local PHA opposes ownership. Such a group of tenants would apply directly to the Secretary of HUD. If eligible, according to the criteria below, HUD would set in motion the ownership process, and the PHA would be required to provide the resident association with a mortgage according to HUD rules. Legislation should also be enacted to expand the housing voucher program so that tenants

unable to buy a share of a co-op, or other ownership vehicle, such as lease-purchase, could continue as renters.

Eligibility

The program would center generally on purchases by successful tenant management associations. As the tenant management associations or mutual housing associations improved tenant skills and reduced operating costs, savings to the PHA would be placed into an escrow account toward the purchase price, or as the equity element of a lease-purchase agreement. The purchase process would begin when this transitional arrangement reduced running costs sufficiently for the tenants to have a reasonable chance of meeting the costs of ownership.

To be eligible for membership in the purchasing organizations, tenant-buyers should have been good tenants in the specific building for at least one year and good public housing tenants for at least three years. This would help assure stable buyers of good character. Tenants unable to meet this criterion would not be permitted to purchase.

Discount and Resale

An eligible association, comprised of eligible tenants, would be allowed to purchase the building at 30 percent of the assessed market value. No down payment would be required. If a co-op member were to sell his share within the one year, his portion of the entire 70 percent discount would be repayable to the PHA. This repayable portion would fall by 10 percent annual segments (of the initial market price) until, after seven years, the member would be free to keep all resale proceeds. The prospect of gain should be sufficient to establish the notion of equity, and so offset the lack of a down payment.

Financing

Eligible tenant management associations accepted into the program would have the right to a mortgage from the PHA under the legislation proposed. Since the PHA would be the owner of the building in the first place, this would involve no transfer of cash, only the replacement of rent payments to the PHA with mortgage payments. The interest rate on the mortgage would be adjusted to reflect the marginal tax benefits available to typical first-time homebuyers.

Tenant associations could purchase outright or purchase according to a shared-equity plan. With either method of purchase, the housing authority would continue to operate the units occupied by tenants refusing or ineligible to join the ownership associations. Existing tenants, in other words, would not be evicted. Eligible tenants could, however, buy into the purchase plan at any time. If some of the tenants continued to remain renters, supported by the government, that portion of the building would

be considered a set of units owned by the PHA--thus the PHA would not be a shareholder in the cooperative. However, maintenance services to these units could be provided by the tenant ownership association under contract. An alternative might be for the federal government to guarantee to the association owning the building that vouchers would be provided to meet the costs of units still occupied by tenants.

Under a shared-equity arrangement, the tenant association could, in effect, buy a portion of the unit (minimum 50 percent) and continue to pay rent to the PHA on the remainder. The association could add to its ownership in increments, as finances permitted. Payment could be made in-kind (such as maintenance work) to obtain additional ownership shares. An alternative approach would be a lease-purchase arrangement, where tenants could build up equity credits, but would not take title until they could finance the entire sale price of the building.

Resale

The part-owner could sell his unit in the normal way, subject to the provisions regarding discount repayment, but he would have to return the original cost of the rented portion of his unit to the PHA. Alternatively, he could sell his share to an eligible buyer willing to take on his shared equity responsibilities. The tenant would have the right to a mortgage from the PHA, with a limit based on income and a below-market interest rate, offsetting the reduced tax relief available to low-income tenants.

CONCLUSION

The program suggested is not a proposal to sell off public housing to developers or suburban homesteaders. It is a device to provide ownership opportunities for existing tenants of public housing projects. If successful, it could transform some of the most troublesome communities in the nation's urban areas. It draws on the known successes of tenant management associations and that powerful ingredient of commitment to neighborhood--ownership. Turning public housing tenants into homeowners in this way would utilize the strengths and ownership dreams of residents themselves to help overcome the debilitating problem of America's inner cities.

Stuart M. Butler
Director of Domestic Policy Studies

Chairman GONZALEZ. Our next witness is Dr. Weicher, who is the Weyerhaeuser scholar in public policy research of the American Enterprise Institute for Public Policy Research, Washington, DC.

Mr. Weicher.

STATEMENT OF JOHN C. WEICHER, F.K. WEYERHAEUSER SCHOLAR IN PUBLIC POLICY RESEARCH, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Mr. WEICHER. Thank you, Mr. Chairman.

I am very pleased to have the opportunity to appear before this subcommittee and discuss the issue of housing policy for the poor. For the last 15 years, there has been a running debate between advocates of two basic policy approaches: Construction of projects specifically intended for the poor; and utilization of the existing privately owned housing stock.

For about the last 3 years, there has been a stalemate so that we have had a little new construction, a voucher demonstration coming on top of the 10-year experiment and mostly a gradual expansion of the Section Existing Housing Program which seems to be about halfway between what both sides really want.

I have been hoping this year we could break the stalemate and I see H.R. 1 as a serious attempt and even an opportunity to do that.

This afternoon I want to begin by describing the housing problems facing the poor in America today and then discuss policies to meet those problems including the policy approaches embodied in H.R. 1 and in the administration's 1986 budget.

In my remarks I am going to concentrate on HUD's low-income housing programs. In describing our housing conditions I want to talk about three issues: How much housing we have, how good it is, and how much it costs. To save time I simply want to state my conclusions here and the evidence for them is contained in my prepared statement which you have.

Chairman GONZALEZ. Yes.

Mr. WEICHER. The United States enjoys a large and growing stock of housing. By 1983, we had one housing unit for every 2½ people in this country. That is the most we have ever had. In the last decade, the number of housing units has grown twice as fast as the number of people. One result is that the vacancy rate in the rental stock is as high as it has been since 1967.

Our quality is also better than ever. Less than 10 percent of our occupied housing stock is less than physically adequate. Even our bad housing is better than it used to be. But there are still problems, particularly for very low income renters, a fifth of whom live in inadequate housing—about 2.4 million households.

There are also problems for other groups such as blacks, Hispanics and the elderly. But to a substantial extent, these people have problems because they are poor and are more often renters. Housing conditions for all these groups, like housing conditions for other people in the country, are steadily improving.

The story on housing costs is different. While quantity and quality are getting better, cost is becoming an increasing problem, particularly since 1975, and is now clearly the worst problem facing

* poor.

More than half of all poor renters live in decent housing but pay a lot for it, pay more than 30 percent of their income, which is too much by the program standards which Congress and the administration have established.

There is one other housing problem facing the poor. Most of them don't get any housing assistance from the Federal Government. Only about a quarter of very low income renters are helped by HUD programs, which makes housing unique among the low income benefit programs. It is not an entitlement. Food stamps are; AFDC is; but housing isn't. In housing, many eligible families would like help, but it isn't there.

To summarize, we have a large and growing stock of decent housing in the United States, but it is increasingly expensive, and this is true for the poor as well as the rest of us. Most of them live in perfectly decent housing without getting any help from the Federal Government, but have to pay a large share of their income for it.

Now, if this is the problem, what is the solution? To me, the obvious solution is to help poor people meet the high and rising cost of the adequate housing most of them already live in. That means giving them a voucher or housing allowance instead of either a moratorium on further help as proposed in the administration's budget, or building more housing for the poor as proposed in H.R. 1.

Now, of course, the administration's policy has been to provide additional assistance through the voucher. I think that is the right policy and quickest way to help the most poor people. Unfortunately, the administration hasn't been willing to move very rapidly toward extending assistance to those who didn't get it. It hasn't been willing to move towards a housing entitlement program, even before this year's proposed freeze. That is understandable, but is still unfortunate.

Now, I don't think the proposed freeze is really a radical break with past policy. I think it is just part of an effort to bring down the deficit to more manageable proportions without hurting the poor.

This year's budget in effect holds constant the real expenditures on the safety net programs for the poor, including housing assistance. The freeze they are proposing doesn't help people who aren't getting help now, but it doesn't hurt particularly the people who are now living in subsidized housing. But also it doesn't have much effect on HUD's outlays. Over the next 5 years, it might save about \$3.5 billion.

Now, I recognize that it is imperative to reduce the Federal deficit. And if you will permit me a short commercial, we at AEI are just about to publish a book on the problems resulting from the deficit. I am one of the authors of that book. I can see that a housing moratorium may be necessary to help control the deficit, but I would rather see Congress find some other way to save that \$3.5 to \$4 billion so we can help more of the poor afford decent housing.

Let me turn to H.R. 1. I think this legislation has several great virtues. It reaffirms our national housing goal of a decent home for all Americans. It will help some who haven't yet achieved that goal, and it attempts to address the problems of the homeless which deserve attention.

My concern is that H.R. 1 is an overly expensive way to make relatively little progress. It would double last year's budget authority in order to add only about 25 percent more subsidized units. Compared to last year, there would be an additional 27,500 subsidized units at an additional cost of \$4.7 billion. That translates into about \$170,000 for each additional unit.

The cost is so high primarily because H.R. 1 would build 22,000 more public housing and section 202 units. Those units alone add almost \$4 billion to the budget.

New housing is an expensive way to house poor people. It is about twice as expensive as using the existing housing stock. Because it is expensive, we are unwilling to spend enough to make it available to all of the poor, and we never have been willing. And because housing assistance is not an entitlement—and it never has been—our housing programs for the poor are fundamentally unfair, and they always have been.

Subsidized housing is like a lottery. A handful of the poor win big. They get a large benefit. They live in very good housing. Many more people equally poor, and as far as we know equally deserving, win nothing at all.

The high cost of new housing means, even under H.R. 1, we will move only very slowly toward the national housing goal. Housing will still be a lottery without very many winners.

Instead of building more low income units, we should be making use of the housing we already have. We can do this efficiently and inexpensively by expanding the housing allowance experiments into a full-fledged program.

After 10 years, I think we know the voucher works; it is a proven way of solving the most widespread and serious housing problems affecting the poor in America today. It is the most cost-effective and efficient program we have yet been able to devise.

I hope you will use the opportunity this year to extend its benefits to more poor people rather than returning to programs which have been tried in the past.

Thank you.

Chairman GONZALEZ. Thank you very much, Dr. Weicher. I really mean that. We are very grateful, because these are essential presentations to us.

[Mr. Weicher's prepared statement "Low-Income Housing Policy: Basic Issues" follows:]

LOW-INCOME HOUSING POLICY: BASIC ISSUES

Statement of

JOHN C. WEICHER

F.K. Weyerhaeuser Scholar in Public Policy Research

American Enterprise Institute

Before the

Subcommittee on Housing and Community Development

Committee on Banking, Finance, and Urban Affairs

House of Representatives

March 14, 1985

I am very pleased to have the opportunity to appear before this Subcommittee and discuss the issue of housing policy for the poor. For the last 15 years, there has been a running debate between advocates of two basic policy approaches: construction of projects specifically intended for the poor; and utilization of the existing privately-owned housing stock. For about the last three years, there has been a stalemate: the Administration has wanted to terminate nearly all new construction programs and establish a housing allowance that subsidizes the poor to live in existing housing, while Congress has been willing to stop most new construction, but not to move as far as the Administration wants to go toward a housing allowance. The result has been a small amount of new construction, a voucher "demonstration" coming on top of a ten-year experiment, and a gradual expansion of the Section 8 Existing Housing program, which seems to be acceptable to both Congress and the Administration as being halfway between what each really wants.

H.R. 1 is a serious attempt to change the terms of the debate, and deserves attention and analysis. I am especially glad that the Subcommittee is using part of these hearings to consider the broader issues of housing policy.

My testimony begins with a description of the housing problems facing the poor in America today, and how those problems have been changing. I then discuss the basic policy approaches embodied in H.R. 1 and the Administration's fiscal year 1986 budget, in the light of today's problems. I focus on HUD's low-income housing programs, rather than touching on the whole range of issues addressed by H.R. 1.

CURRENT HOUSING CONDITIONS IN AMERICA

There are three basic dimensions of the housing stock that are often the concern of public policy. They are: the quantity of housing available; quality; and cost. Each of these is worth the attention of this Subcommittee.

How Much Housing Do We Have?

The United States enjoys a large and growing stock of housing. By 1983, the latest available data, we had one occupied housing unit for every two and three-quarters people. This is the most housing we have ever had. There was only one unit for every three people in 1973, one for every three and a half in 1950, and one for every four in 1930. If vacant houses and apartments are included, there is one year-round unit for every two and a half people.

Stated another way, in the last decade the number of housing units has grown twice as fast as the number of people in the country--22 percent vs. 11 percent.

The rapid recent growth in the housing stock has increased the number of available vacancies. By the fourth quarter of last year, the rental vacancy rate was 6.2 percent--as high as it has been at any time since 1967.

More and more American families are able to live by themselves, if they want to; the number of individual housing units that are occupied by two or more families has fluctuated for the last decade at around 1.5 percent of the total.

There is also more space available inside our housing--more rooms in each unit, and more floor space as well, although we do not have

very detailed information about the latter aspect of housing. As the number of people per unit has been falling, the number of rooms per unit has been rising. The proportion of units that are crowded (conventionally defined as having more than one person per room) has fallen steadily, from 20 percent in 1940, to 8 percent in 1970, and 3.5 percent in 1983. This is the lowest level on record.

How Good is Our Housing?

There is presently no generally accepted standard for determining the physical adequacy of the American housing stock. Several criteria have been developed by various government agencies, such as the Department of Housing and Urban Development and the Congressional Budget Office. In this analysis I use the current HUD criterion, which analysts in the Department have developed and used during the last two administrations.

By this criterion, 9.3 percent of our occupied housing stock was physically inadequate in 1981. This is the lowest rate in the last decade, as the accompanying Table 1 shows, and surely the lowest rate in our history. (Data for this measure are only available from the Annual Housing Survey from 1973 to 1981; the AHS was converted to a biennial basis after 1981 because of budget constraints and the 1983 data on housing quality are not yet available. It is very likely that we have seen continuing improvement since then; the steep recession of 1982 has been followed by two strong years of very rapid economic growth and rising real incomes.)

The current HUD definition sets a higher standard than the traditional Census criterion, used from 1940 to 1970, but it records the same pattern of improvement that we saw during those three

TABLE 1
PHYSICALLY INADEQUATE HOUSING IN THE UNITED STATES, 1973-1981

<u>Year</u>	<u>Inadequate Units as a Share of Housing Stock</u>
1973	11.8%
1974	11.0%
1975	10.6%
1976	10.1%
1977	10.1%
1978	10.1%
1979	9.8%
1980	9.6%
1981	9.3%

Source: Annual Housing Survey and U.S. Department of Housing and Urban Development.

TABLE 1 - continued

Definition of Inadequate Housing

(A unit is classified as physically inadequate if it fails to meet the criterion for adequacy in any one of the categories.)

Category	Description of Flaws
1. Plumbing	<p><u>Lacking or sharing some or all plumbing facilities.</u> To be adequate, a unit must have hot and cold piped water, a flush toilet, and a bathtub or shower all inside the structure and designed for the exclusive use of the unit.</p>
2. Kitchen	<p><u>Lacking or sharing some or all kitchen facilities.</u> To be adequate, a unit must have an installed sink with piped water a range or cookstove, and a mechanical refrigerator (not an icebox) inside the structure for the exclusive use of occupants of the unit.</p>
3. Maintenance - Physical Structure	<p><u>Containing three of six signs of inadequate maintenance.</u> The six maintenance signs are: leaking roof; open cracks or holes in interior walls and ceilings; holes in the interior floors; and either peeling paint or broken plaster over one square foot of an interior wall; evidence of mice or rats in last 90 days; and leaks in basement.</p>
4. Public Hall - Common Area	<p><u>Containing three of four public hall deficiencies.</u> Four possible deficiencies are measured including: no light fixtures or no working light fixtures in public halls loose, broken or missing steps on common stairways inside structure or attached thereto; stair railings that are loose or missing entirely; and no elevator in the building for units two or more floors from main building entrance in four or more story building.</p>
5. Heating	<p><u>Having inadequate heating equipment or equipment breakdown.</u> Inadequate units are those heated primarily by room heaters without flue or vent which burn gas, oil or kerosene. A unit is also inadequate if it suffered a heating equipment breakdown of six consecutive hours or longer -- three or more times last winter.</p>
6. Electrical	<p><u>Experiencing three selected electrical defects or no electricity.</u> The three electrical defects which must all be present are: a room with no working wall outlet; blown fuses or tripped circuit breakers three or more times in the last</p>

TABLE 1 - continued

<u>Category</u>	<u>Description of Flaws</u>
7. Sewage	<u>Inadequate provision for sewage disposal and breakdown of the facilities.</u> Adequate means of sewage disposal include a public sewer, septic tank, cesspool, or chemical toilet. Facilities must be in the structure. A unit is also inadequate if there is a breakdown of the flush toilet six consecutive hours or longer three or more times during the last 90 days (for units with only one toilet).

decades. In 1940, almost exactly half of our housing was substandard; by 1970, less than eight percent was.

While the overall incidence of inadequate housing has been gradually declining from year to year, individual housing units have deteriorated--and been upgraded--with much greater frequency. The HUD criterion of inadequacy, as shown in the note to Table 1, includes several housing maintenance items as well as fundamental structural problems. The vast majority of these maintenance problems in any given year are repaired within a year or two, and the units with those problems are then no longer inadequate. Units without complete plumbing or kitchens or sewer systems, by contrast, typically remain in the inadequate category until they drop out of the housing stock, but they constitute a minor fraction of inadequate units in any year.

But while there is a small and declining share of the stock with serious physical and structural defects, there still are some problem units. For public policymaking, it is useful to know who lives in those units. Table 2 shows the incidence of inadequate housing among the total population, and among several groups that have often been of special concern in housing policy.

It is clear that housing quality is primarily a problem among poor renters. One-fifth of all renters with incomes below 50 percent of the local median live in inadequate housing. This amounts to about 2.4 million households. There are also disproportionate problems among other groups--among them, blacks, persons of Spanish origin, female-headed households, and the elderly. But to a very substantial extent their housing problems reflect the fact that they have lower incomes and are more often renters. This is the situation for female-headed households and the elderly, for example; after adjusting for

TABLE 2

INCIDENCE OF INADEQUATE HOUSING FOR DIFFERENT GROUPS IN THE U.S., 1981

	<u>All Households</u>	<u>All Renters</u>	<u>Very Low Income Renters</u>
U.S. Total	9.3%	14.7%	20.2%
Blacks	24.5%	27.8%	32.5%
Spanish Origin	17.1%	20.2%	23.6%
Female-Headed Households	11.5%	13.5%	18.5%
Elderly	10.5%	15.0%	17.3%

Source: Annual Housing Survey and U.S. Department of Housing and Urban Development

income and tenure, they live in better housing than the nation as a whole. However, it is not true for persons of Spanish origin, and especially not true for blacks.

Insofar as we have information, housing conditions for all of these groups have been steadily improving. This is clearly true for the last decade. Before that, there are many gaps and changes in coverage from one Census to the next, but wherever we do have information, the national pattern of improvement is repeated for each group--for blacks, for the poor, for rural residents, among others.

Housing quality is thus predominantly a problem of the poor. But not all poor people have the problem. Table 3 shows the extent to which very low income renters suffer from each of three general housing problems.

*Just over one-fifth have no serious problem.

*Another one-fifth live in inadequate housing.

*A relative handful are crowded.

*More than half live in physically adequate housing, without crowding--but find themselves paying a high rent burden in order to do so.

A very similar pattern occurs for very low income renters among each of the population groups in Table 2. More than half of female-headed households, and those of Spanish origin, live in adequate housing, but at a high cost. More than 45 percent of blacks and the elderly are in the same situation.

These figures include residents of subsidized housing, but when they are omitted, the same general pattern holds for the non-subsidized low-income rental housing stock.

TABLE 3

HOUSING CONDITIONS OF VERY LOW INCOME RENTERS, 1981

No Major Housing Problems	22.1%
Adequate Housing with High Rent Burden	52.0%
Adequate but Crowded	5.7%
Physically Inadequate	20.2%

Note: "High Rent Burden" defined as rent/income ratio greater than 30%.
"Crowded" defined as more than one person per room.

Source: Annual Housing Survey and U.S. Department of Housing and Urban Development.

How Much Does Housing Cost?

While housing quantity and quality have been improving, housing cost has become an increasing problem. As Table 3 shows, it is the largest housing problem now facing the poor. Moreover, the number of households with high rent burdens has been rising. In 1981, more than half of all renters paid more than a quarter of their income in rent; in 1950, less than a third did. Using the ratio of 30 percent established by Congress in 1981 for subsidized housing, the number of renters with a high cost burden has risen from 24 percent in 1975 to 36 percent in 1981. For very low income renters, the number has risen from 48 to 52 percent.

Part of this increase is accounted for by the rising quality and greater size of rental housing units, as mentioned above. That part does not represent a housing problem, but a decision by renters to spend more on housing and less on other things. A more appropriate way to analyze housing costs is to compare renters' incomes with the rent of a standard quality apartment. For many years, renters' incomes rose faster than rents, on this criterion. But since 1975, the reverse has been true: incomes have increased by 44 percent, while rents have risen by 52 percent. (The rent component of the Consumer Price Index is used to measure the change in the rent of a standard quality apartment.) It has recently become harder for the poor to afford adequate rental housing.

THE FAIRNESS OF HOUSING POLICY

The housing of most poor people is provided by private enterprise, without any direct subsidy. This fact brings out a basic weakness of our housing policy. Only a minor fraction of very low

income renters--probably less than 25 percent--live in federally-subsidized housing. In 1981, there were 11.8 million very low income renters, and 3.3 million families in HUD rental programs--probably only 2.5 to 3.0 million of them with very low incomes. This means that about 75 to 80 percent of eligible families do not receive housing subsidies.

In this respect low-income housing is unique among the major federal direct benefit programs for the poor. Housing assistance is not an entitlement. Food Stamps are, Medicaid is, Aid to Families with Dependent Children is, the earned income tax credit is. Everyone with incomes below the level set by Congress, and meeting any other specified criteria, is entitled to assistance, if they want it. In housing, many eligible families would like help, but it isn't there.

This difference is directly attributable to the basic policy choice that we made almost 50 years ago. At that time, we decided to build new housing for poor people. For most of the last half century, we have continued to follow that approach--at first exclusively, and then predominantly.

There are two reasons for our policy. First, subsidized housing began during the Depression, and it was seen primarily as a way of stimulating the economy. During the New Deal, public housing was part of public works, not part of welfare. In practice, it turned out not to be a very effective way of putting people back to work, as President Roosevelt himself quickly discovered. But we have continued to build.

The second reason why we have relied on new construction also goes back to the Depression: because so much of our housing stock was

inadequate then, it seemed easier to build new units than to upgrade old ones. As I have already argued, this justification is also out of date.

New housing is an expensive way to house the poor. The President's Commission on Housing reported three years ago that the cost of helping a poor family was about twice as high in the Section 8 New Construction program as in Section 8 Existing Housing, taking all subsidies in both programs into account. Roughly the same ratio is likely to apply to any new construction program, in comparison to any program that relies on the existing stock. This is partly because new construction, subsidized by the government, is invariably more expensive than private housing, and partly because the new projects are built to a higher quality level. Most private housing occupied by the poor is adequate, decent housing; most new subsidized projects for the poor are significantly better quality. The President's Commission on Housing estimated that Section 8 New Construction units were about 20 percent better than those in the Existing Housing program.

The high cost of new housing construction has been one of the most important reasons why housing assistance has never been an entitlement program. And because housing assistance is not an entitlement, and never has been, our housing programs for the poor are fundamentally unfair, and always have been. Subsidized housing is like a lottery. A relative handful of low-income families "win big;" they get a large benefit and live in much better housing. Many more people--equally poor, and as far as we know equally deserving--win nothing at all.

CURRENT HOUSING POLICY OPTIONS

There are now two diametrically opposed housing programs that have been proposed for FY 1986: H.R. 1, and the Administration's budget proposal. I want to discuss each of them in the light of our current housing problems.

The FY1986 Budget

The policy of the Reagan Administration has been to terminate nearly all subsidized construction programs and provide additional subsidized housing through housing allowances or vouchers. This approach has the advantage of helping the poor to meet the high cost of adequate housing, which is their basic housing problem.

The policy shift to existing housing also means that it should be possible to move more quickly toward making subsidized housing an entitlement, similar to Food Stamps and Medicaid. But the Administration in recent years has not chosen to move more rapidly toward an entitlement program. As part of its efforts to cut the growth in total program costs, it has sought to hold down the number of additional units coming under subsidy each year to about 100,000. This year's budget goes farther and proposes a two-year freeze on the total number of subsidized units.

Unlike many analysts, and many of the witnesses who have appeared before this Subcommittee, I do not think that the Administration's budget represents a radical break with past housing policy. I see it as part of an effort to hold constant the total real expenditures for the "safety net" provided to the poor, while at the same time bringing down the federal deficit to more manageable proportions. The Administration's proposal is essentially a freeze. The number of families being housed under HUD programs would remain at 4.2 million

for the next two years. If instead the Administration followed the pattern of the recent past, it would be proposing to add 199,000 families a year, for a total of 4.3 million in 1986 and 4.4 million in 1987.

This appears to be a large reduction only because of the peculiar political history and the peculiar budgetary accounting that apply to subsidized housing programs. In housing--and only in housing--the politically significant budget number has always been the number of additional units to be subsidized each year. In Food Stamps and other programs, it is the total number of people being helped. This attitude toward housing is another reflection of our original policy of building new projects for the poor. It has been out of date for many years, but the budget is still discussed as if it were valid.

In passing, it is worth noting that the same approach is proposed for the public housing modernization program. The amount of additional modernization is cut by more than 75 percent, from \$761 to \$175 million, in a one-year moratorium on everything except "emergency" repairs, to be followed by a return to \$761 million. The merit of this proposal is problematical. Large and increasing sums have been spent for modernization in recent years, without making much of a dent in the problem of deteriorating public housing. Possibly a one-year moratorium might not make any difference--many repairs can be postponed for a while. But it could speed up the rate of decay and result in higher costs later. (Whatever the level of funding, the change in the method of financing modernization is highly desirable and will ultimately save the federal government billions of dollars in interest cost.)

All in all, the freeze would not have much effect on the people now living in subsidized housing, just as the changes in other welfare programs would not greatly affect their beneficiaries. The reductions in most safety net programs primarily result from freezes or other limitations on the growth of administrative costs, particularly those of the state and local governments that actually run most of the programs. Very few changes would actually reduce real benefits for the poor.

But the freeze also does not have much effect on HUD's expenditures. It would save about \$350 million in 1986 and \$700 million in 1987 and later, compared to last year's budget. That is not a large share of the \$10 billion HUD spends annually on subsidized housing. The saving in budget authority is much larger, but over the next five years would amount to only about \$3.5 billion.

I recognize the imperative of reducing the federal deficit. Indeed, the American Enterprise Institute is shortly publishing a book on the problems occasioned by the deficit, and I have contributed to that book. I am willing to see a brief moratorium on additional subsidized units in order to bring down the deficit. But I would like to see progress resumed toward a long-term goal of making housing assistance available to all poor families. Perhaps Congress can find some other way of saving \$3.5 billion over the next five years, to permit further progress.

The Administration has been unwilling to make a commitment to an entitlement housing program. This is understandable. Housing programs have invariably cost more than originally expected and have developed unforeseen problems as they have expanded. Furthermore, the Administration has had to wrestle for several years with the budgetary

consequences--largely unexpected--of entitlement programs enacted in the past. It may be forgiven for being unwilling to move toward a new one. But the basic unfairness of federal housing programs continues as a result.

Moreover, an entitlement program would also simplify other housing policy problems. This administration, like the last three, has confronted continually rising operating subsidy and modernization costs in public housing. Also like the last three, it has not had great success in controlling them. It is not possible to address these problems, except on a piecemeal basis, under present policy. But with a nousing entitlement program for the poor, public housing residents could be offered vouchers along with all other low-income households, and public housing authorities would be subject to the discipline of the marketplace. This would be consistent with the basic rationale for the Administration's housing payment certificate program. It would also go far toward resolving the much-vexed questions of modernization needs, and the sale or demolition of public housing projects, an issue addressed by H.R. 1. The really "bad" projects would be identified easily--by the decisions of their tenants, the people best able to judge their quality--and the local housing authorities would have to either upgrade them, within the same income constraints faced by private landlords of decent housing already occupied by the poor, or else remove them from the inventory.

H.R. 1

The nousing bill before this Subcommittee has several strengths. It in effect reaffirms the national nousing goal of "a decent home" for all American families that has been the avowed object of public

policy since 1949. It proposes to help some of those Americans who have not yet achieved a decent home--who have not shared fully in the very substantial housing improvements that our country has enjoyed in the last four decades. And it attempts to address the problems of the homeless, which have become a matter of increasing public concern. All these purposes are worthy.

Unfortunately, H.R. 1 seeks to meet the remaining housing problems of the poor in large part through programs that have proven unsatisfactory in the past. Over half of the additional subsidized units that it authorizes would be new or rehabilitated. This approach is a return to the policies of the Carter Administration, emphasizing new construction. As a result, H.R. 1 turns out to be an expensive way to make relatively little progress. It proposes to double last year's budget authority, in order to add only about 25 percent more subsidized units. There would be an additional 27,500 subsidized units, at a cost of \$4.7 billion additional budget authority. That translates into a cost of about \$170,000 for each of the additional units. The cost is so high primarily because H.R. 1 would build 22,000 more public housing and Section 202 units; that adds almost \$4 billion to the budget. In addition, H.R. 1 prefers the more-expensive Moderate Rehabilitation program over regular Section 8 Existing housing, and the more-expensive Section 8 Existing program to the voucher.

The high cost of each additional subsidized unit means that, even under H.R. 1, the nation will move only very slowly toward the national housing goal. The "lottery" problem will remain; another handful of poor families--who may or may not live in bad housing to begin with--will receive very substantial benefits, while many more

receive nothing. This problem of fairness simply cannot be solved through new construction programs. Congress has never been willing to authorize much more than the amount contained in H.R. 1, in any single year, and we have never been able to find an inexpensive way to build new housing for the poor.

SOLUTIONS TO OUR HOUSING PROBLEMS

To summarize, we have a large and growing stock of decent housing in the United States. But it is increasingly expensive. This is true for the poor as well as for the rest of us. They are not as well housed as most people, but the vast majority of them also have enough space and live in physically adequate housing--most of the time; and when something goes wrong with their housing, they get it repaired and again live in adequate housing. For most of them, their housing is provided by private enterprise, without subsidy. But they have to use a large share of their income to pay for it.

If this is the problem, what is the solution?

The obvious solution is to help poor people meet the high and rising costs of the adequate housing that most of them already live in. That solution implies financial assistance to the poor, instead of either a moratorium on further help, as proposed in the administration's budget, or construction of new housing, as proposed in H.R. 1.

This Subcommittee has heard several witnesses argue for the latter approach, on the grounds that there is a shortage of low-income or low-cost housing; because of the shortage, they have urged that more low-income housing be built. This is too narrow a view of the

housing market. We already have 90 million units available for 230 million people. If there is a shortage of low-cost housing, there must certainly be a surplus of middle-priced and high-cost housing. It is simpler, faster, and less expensive to help the poor live in some of that surplus housing, rather than to try to turn the shortage of low-cost housing into a surplus as well, by building more units specifically for them.

Instead of building more low-income housing, we should be making better use of the housing that we already have. We can do this, efficiently and inexpensively, by expanding the housing allowance experiments into a full-fledged program. The voucher is a proven means of solving the most widespread housing problems affecting the poor in America today. We know that it will solve these problems, at reasonable cost. It is more cost-effective and provides greater freedom of choice to the poor than the Section 8 Existing Housing program. I hope Congress will extend its benefits to more poor people, rather than returning to the more expensive, inefficient, and ultimately unsatisfactory programs that have been tried and found wanting in the past.

Chairman GONZALEZ. I would like to make a few general comments; maybe ask a question or two.

Dr. Hartman, one thing I am grateful to you for is that you make me look like a real Reaganite conservative. H.R. 1 looks socialistic to my colleagues on the left—and I say “left” because they are on the left in this case, physically.

I just feel that what you have presented inevitably is going to happen. What I fear is how it is going to happen, the way we are going. There is no question in my mind that we are in the process of creating very, very distressful social conditions that, given the experience in other countries, end in rather unhappy conditions for remedy and for dispassionate solution.

I think you have the idea. I adhere to it. But I am wondering, while we wait for the revolution, if you could join me in keeping something alive here on H.R. 1. What it really amounts to, as I said at the outset, is not representative of what I know is the need for the programs. But it is the only thing we have got.

In the meanwhile, even though it is minimal, it, I believe, will keep faith with being responsive to what obviously is needed.

We have had endless testimony over the last 4 years, particularly this time. We actually have begun 4 weeks of hearings and will wind up next week. It just seems to me that if I had my druthers, I would introduce something more along the lines of what you have suggested in your very adroit drawing up of your plan than what I have.

But the truth of the matter is that it entails a restructuring of many other basic government structures before I think we could reach that. What I am concerned about is that we do something even minimal in the hope that in the next 2 years we could really come in and more meaningfully shore it up.

This is a multiple body, and this time we have in power those directors of our executive branch who have always been against even the minimal programs, and who are no more supportive than they ever have been in the past 30 years. That is on the one hand.

On the other hand, we have congressionally accepted and mandated programs and policies that came into place after much debate, some for 44 years that would be zeroed out, and will be, if we do not accept the basic thrust of H.R. 1, which really has in mind the reaffirmation and reauthorization of the basic assisted housing programs.

I think that your presentation has not only been imaginative—it is seminal, it is creative, which I love; and not negative, which is what I have been distraught about because we have had to be in the past few years.

In the case of Professor Roistacher's presentation, which is most invaluable to us, we have been referred to the British experiment. I know that your pictures are almost 100 percent in Scotland.

Does that have any meaning, you know—the frugal Scots? Is there any real significance in that?

Ms. ROISTACHER. When I was in Britain, I didn't always carry my camera. In the course of my visit to Scotland, I was given a very good tour. But I should note that in Glasgow, which is the location of many of those photographs, that council housing is about 70 percent of the stock.

Glasgow is a city with just about the highest proportion of council housing, so that it was a logical one on which to focus.

Chairman GONZALEZ. Certainly.

Ms. ROISTACHER. The photographs are not what I would call a fully representative sample, but I think they give you some idea—

Chairman GONZALEZ. Yes.

Ms. ROISTACHER [continuing]. Of how good council housing can be; and also that there is some council housing that reminds us of the not so good public housing that we sometimes encounter in the States, as well.

Chairman GONZALEZ. Yes, I do appreciate that.

We recognize at this point my very wonderful friend here and colleague Mr. Levin from Michigan, because he is going to have to leave.

Mr. LEVIN. Thank you very much.

I am glad I had a chance to hear most of the testimony. I did have a chance to scan the piece that I missed.

I am sorry in many ways that it turns out you are testifying during a break period, because I think this has been a very rational discussion of the housing issues compared to the heat of yesterday. This has been calm maybe more so than predicted.

The differences among you are great, maybe not as great in some instances as one might suspect. So I am sure we will be distributing this to all the Members.

Chairman GONZALEZ. Yes.

Mr. LEVIN. Redistributing, Mr. Chairman.

Let me just suggest one comment. Unfortunately, terms in Washington begin, if they are appealing, to be applicable to almost anything with almost any meaning. And your definition of the freeze, or your use of "freeze," Dr. Weicher—a freeze usually means, I think, that we maintain the present year's expenditures—not that we eliminate them through a moratorium.

So I just suggest that you use the term "freeze"—when you mean "elimination" for a couple of years, or moratorium, however one wants to call it. You make some arguments for it. But that isn't a freeze within our parlance, anyway.

When we talk about a freeze on the military expenditures or freeze on health expenditures, we don't mean we are going to spend nothing next year and nothing the year thereafter, and then pick them up the following year; right? And what the Reagan administration has proposed is not a freeze when it comes to the housing area but, except for the subsidy continuation, a halt. Use whatever epithet one might use,

Mr. WEICHER. I used the term, "with malice aforethought," Mr. Levin. It is a freeze on the total number of people who will receive housing assistance. It is a freeze on the amount of assistance they receive. It is close to a freeze on outlays. It is not a freeze on budget authority because of the way we finance subsidized housing.

Mr. LEVIN. Right.

Mr. WEICHER. Ninety something percent in new authority during 1986 and again in 1987, but it seems to me this goes to the point I was making, that housing is not an entitlement program; that it seems to me what we are doing in this budget is treating housing

in the same way that we are treating other low-income benefit programs.

We are helping the people that are now in the programs in the same way that we helped them in the past, period. We are not hurting them. We are not adding to the benefits that they or other people receive. In the case of food stamps and Medicaid, there aren't that many other people to be helped who are eligible and beating down the doors. If they want it, it is there. But because we don't treat subsidized housing as an entitlement, we get into this kind of a problem.

Mr. LEVIN. OK, I think I understand that. I am just saying that in terms of, we tend to talk about a freeze in relationship to budget authority. I think that is the common usage of the term, "freeze," because if you begin to apply it to the number of recipients, as you say we have a very different situation. I must say, to just finish my remarks, I think a good reason for much of the heat yesterday is that there isn't much credibility on the part of the administration when it says—comes here and says we are just talking about a moratorium for a year or two.

The Voucher Program, which has created a lot of controversy within our ranks, as you know, after a couple of years, is barely off the ground. Now the administration which pushed it wants to halt it, at least they say temporarily. Therefore your statement of concern for and commitment toward programs of housing for lower income families in American, your statements simply are not credible.

They really aren't. We had another example here, and I just say this because I think there should be some back and forth. It is important for you outside of the halls to understand—to glimpse where we think we are coming from. We had another example yesterday in relationship to 235 where regulations hadn't been published a year and half or whatever it was, after the enactment of the law.

When I was in an administrative position, if anybody conducted themselves that way they would have been fired. If they were political appointees they should have been fired. If they were civil servants, if they weren't fired there should have been a reprimand. So the dialog that you could help enhance here today, unfortunately, is difficult to carry on when there is in the eyes of so many of us just a lack of credibility as to commitment or as to implementation.

I think it very much undercuts your statements, because you are very gingerly, to put it mildly, with an administration whose record in housing in the eyes of, I think, all of us on this side, is so bleak.

Mr. WEICHER. I can't speak for the administration. I am not here to speak for anyone except myself. I don't know why it has taken so long to get the voucher demonstration going. I know 10 years ago the Section 8 Existing Housing Program was established fairly quickly and there is good evidence that you can establish an existing housing program faster than you can start a new construction program or expand it.

My point on what the administration is doing, I think they have the right policy. I wish they would pursue it faster. That is what I tried to say. I think if you look at the programs for the poor in this

budget, beyond housing, you see a pattern where they have left them essentially alone while they have been through any number of other programs which aren't specifically for the poor and cut them very deeply.

But if you look across the safety net programs, the low income benefit programs, income security programs, basically they are leaving them alone and, I think what they are doing in housing is consistent with that. It looks different, as I said, because it is not an entitlement.

Mr. LEVIN. I just think some of the people who are positioned with the administration should realize first of all the administration's record reflects on their persuasiveness and your persuasiveness, and second, that maybe people who are allied on a particular point—I am not talking generally—need to be a little more stringent with the people with whom they say they agree within policy.

Policy doesn't mean anything if there is no product. One last thought: I come from a district where there are applications for two senior citizen housing, beyond the allocation to Michigan, the whole State. As far as the residents there are concerned, the program is working well. I think that is true. I have been in those units enough to say the people feel they are working very well. They don't think government is their enemy. And I think we need to address ourselves to what will take the place, what happens in the meanwhile.

Yesterday, they could not even indicate how many units were contained in applications filed. I say this because I think it is so important that you realize that your comments aren't perceived in a vacuum. I hope you understand the strength of feeling with which we bring to this discussion. Yours was very rational indeed. I hope to find a way to get across this point to those of you who have communications within the administration.

Well, Mr. Chairman, that wasn't a question.

Chairman GONZALEZ. You are very insightful. We are very fortunate to have Congressman Levin among us. All I can say is that the issues you raise and commented on are very pertinent. I know what happened yesterday still kind of clouds the environment in this room today, so to speak. But what you said is very true. There is a presupposition here among the witnesses today that we are working with an honestly motivated administrator.

The reality is that this is what motivates our problem, that we have not been working with an administrations such as this one. I have been here 24 years, and I have worked with six different Presidents. This same administration, instead of faithfully executing laws which are shaped here, has the idea that if you don't like a program or you are committed to ending what is described as a wasteful and unneeded program or policy, or you cannot get the congressional approval to do that, then you do it through indirection.

The President, for example, had sworn in 1980, that he would do everything in his power to eliminate the newly created Department of Education, and the Department of Energy.

Well, the Congress would not do that. Congress had acted just recently in creating the Department of Education. So the next thing that has been done is to nullify the structure and the impact of the

programs by, in the case of certain agencies, not filling positions which are vacant. This has happened in the Department of Energy to a point where it is really a skeleton enterprise.

In the Department of Education, all we have to do is just go back and talk to our local independent school districts and we can see. But in HUD, what is most distressing is that the rule and regulation, or lack of rule and regulation—programs in effect are killed which the Congress has approved and mandated. I would like to say specifically though—and this would be to the three panelists, Dr. Roistacher, Butler, and Weicher—first, when we make comparisons with other countries, such as England or Britain, we must keep in mind the reality of an entirely different class structure and history that is very present.

I think Dr. Roistacher very well pointed out by saying that the poor in the housing councils in Britain are much less poor than the American occupants of public housing. But that does not reflect the homogeneous compared to the United States pluralistic type of society which has to be reflected in the type of housing that is developed in a given society, so that when we speak of the selling or the providing of ownership to those tenants in assisted housing, it is in England or the United States.

We must keep that uppermost in mind first. And, then, second, the very specific statistic that all of the assisted housing stock, including now the nonconventional public housing that everyone of us thinks of when we think of public housing, is just about one person or a little bit more in this country. So, you know, what we are doing when we advocate that. Are we really trying to help the poor to acquire homeownership, or are we thinking of something else?

I wanted to thank Professor Roistacher for mentioning that perhaps there were other motives than assisting the poor achieve homeownership. In the case of vouchers, Dr. Butler, first I want to thank you because I believe it was late last summer that I received a copy of the study. The Secretary of HUD, in answer to our questions and our pleas, stated, well, there wasn't anything the administration was going to present or at least the Department of HUD, until the President appointed his housing commission, and that it was just in gestation, and that he expected it would be mandated to come in with a report within 6 months. So we temporized all that year.

When the commission met, though, what I think has been overlooked by you and Dr. Weicher, is that the President set fixed parameters within which he wanted that commission to come in, and one was no matter what you come up with, it cannot, it must not be an entitlement program.

Now, the truth of the matter is that my home district is one of the areas in which the administration announced last year that would be a voucher demonstration city. As of last week, the housing director authority did not know anything other than what he read out for press purposes when it was announced.

Yesterday, the Secretary of HUD astoundingly did not seem to know why there has been a delay in the Voucher Program implementation. In the case of vouchers, his explanation for the delay in

the implementation was some vague reason why the Congress was to blame, though he never really articulated that.

Judging by the experiment in my district, the waiting list in the city of San Antonio for public housing occupancy is over 10,000. The Voucher Program would provide an income for that purpose of housing for a family, but which in San Antonio would reduce them to subsidizing the slum landlord. There would be no place else that they would be admitted in San Antonio affordably, with the size of the voucher and with the net income available to that family.

The net family income in my district, which is the heart of the city of San Antonio, is the poorest one in the entire State, so that it is cruel, very cruel to do that, to raise the illusion that a housing voucher is going to be some kind of an extension or maybe even a substitute for public housing that will give freedom of choice.

The reality, Dr. Butler, is that there is very little freedom of choice to that, or any choice at all. Because even the slum dwellings, which still remain in our city, are very hard to get into. The fact is, Dr. Weicher, that your desire to extend and make it possible for every eligible poor person to receive a voucher would mean that in effect you are asking for an entitlement program. This is exactly what this administration says will never happen over its dead body.

We have to be realistic in the light of that. But even further than that, if we were to do that, our statistics show there are about 11.8 million very low income renters. If the amount presently contemplated being given in the form of a voucher were given to those 11.8 million, we would have a net cost of \$41.3 billion. Now, interestingly enough, that is just about the amount of money that we subsidize the rich and the upper income through our tax expenditure programs.

The basis for our having the figures we have in H.R. 1 for assisted housing is that we have a little more than 50 percent of that figure on the basis that if we are willing to give that much of aid to the middle and the upper income bracket Americans through indirect tax subsidies, then the least we could do is give a modicum of a little less than that to poor persons. But it is like democracy. The cure for democracy's ills is not to inaugurate a tyrant or an authoritarian. It is to have more democracy. We must also work at many other levels which you referred to. One of you did. I want to advise that I have sought and have asked the chairman of the Ways and Means Committee to find time to listen to us. In the meanwhile, they are working on policies that could knock out the base for many of the innovative self-help programs that we have been hearing witnesses all day today testify on, that have worked very well with, private funds and a modicum of local and State aid.

So what I am saying is that I am not trying to minimize the importance and the seriousness of your presentation. I am saying that we have to look at it in a far more realistic framework of reference with respect to our particular milieu. It is a beautiful country, but it is very, very diverse, and we ought to at least not kill off the modicum of help that is represented by the policies now in place in the name of hoping for something better.

Now, we know that we are confronted with the dilemma that the Secretary announced yesterday. I think each one of you will agree

upon this; that when we speak of housing, unlike some of the other essential programs, we are talking about something that realistically you cannot say I am going to have a moratorium for 2 years, and at the same time say that you want to have housing. Because housing, when it is production, renovation, or when it is providing salable units in an affordable way, you cannot turn it off like a water faucet; not in our system.

And therefore, what we must face is that unless we can come up with an immediate substitute for that now in place, even temporarily, say for 2 years, we cannot talk in terms of what we would like to have on the assumption that what we have now will still be in place, because it won't be.

I don't see how in the world we could seriously say that we could consider a viable voucher program unless it were an entitlement program. Otherwise even though you do intend to discount that, Dr. Butler, the fact is that what we are doing is preempting even that meager stock. And you are also, I do not think, anticipating the reality down the line; for instance, the legal complications. In my State, for example—let us say that we do come around. We enable tenants to purchase. From a legal standpoint, do we provide them with a warranty, which means they have equity or it is a conditional sales contract, which has been so abusively and so harmful to those on the lowest wrung of the economic ladder, no matter how much they pay and for how long, they have no equity.

So the person who has a warranty deed has title. And then what control will the seller have over who will purchase and will they have means to keep up even that payment, minimal as it may be. What I am saying is that I think it is a lot more complex than it has simplistically been presented.

I don't think that we ought to be in the way of anything innovative. We have gone along and have accepted it as a compromise on an experimental basis. But then what do you do with an administration that says that it is our linchpin. You had the Secretary of HUD just 1½ or 2 months ago addressing the National Home Builders Convention saying this is going to be it. Our Voucher Program, which we have insisted on, is going to come in here and that is what we are going to depend on.

The very next day, the President announced his budget in which he pulled the rug out from the feet of the Secretary by saying no money for a Voucher Program. Why should we have included it in H.R. 1? We felt that it is a carryover experimental program that hasn't even been put into operation. I am saying that we are not and have not necessarily obstructed the program even though we have been critical of it on a nonentitlement basis.

There was another thing that I think I wanted to bring out, and then in all fairness, I will ask for a comment or rebuttal. There has been some confusion between the Voucher Program and the Experimental Housing Assistance Payment Program. I wonder if you could tell us the major differences between that Section 8 so-called Voucher Program and the demonstration conducted by HUD in 1971.

We know, for instance, we have a member from Green Bay, which was one of the demonstration cities. But I believe he was

trying to equate that with the present Voucher Program. I would really like to know if we could have some comment on that.

Mr. WEICHER. The voucher that the administration has been proposing is less flexible, provides less freedom of choice to the tenant than the housing allowance experiment in Green Bay and South Bend, which were two of the other cities where it was in fact an entitlement program. A big difference was that the tenant in Green Bay and South Bend got the money directly. It did not go, first, to the landlord. It was not a contract in the first instance between the landlord and the administering agency.

The tenant had much broader flexibility in terms of quality of housing—standards were by no means as detailed as standards set in other Federal programs. That meant it was fairly easy to upgrade the housing that did not meet the standards to meet them. There was a lot of minor upgrading that went on in order to make it qualify for the program, and continuing maintenance so the housing continued to qualify for the program.

Basically what the administration has proposed and what we have in the demonstration is something that is quite a bit closer to section 8 existing housing. What you have done is essentially taken away the ceiling from the fair market rent so that the tenant can go, and if he wants or she wants can rent something for more than the fair market rent and pay for the additional out of their own income.

But I think, if I may expand on that a little bit, I think that the experience in Green Bay and South Bend tells us one thing that goes to a point you made before. Not all of the people eligible for a housing allowance will in fact choose to participate, anymore than everyone has chosen to get food stamps or even AFDC or Medicare. The estimates that I remember from those experiments are that perhaps 50 to 80 percent of the people who are eligible would choose to participate.

That brings down the cost from your \$41 billion to \$20 to \$25 billion. That is not very far from the cost figure you have in H.R. 1. And if I may say, again, what I said to Mr. Levin, I am here to speak for myself. I do not speak for the administration. I would like to see a housing entitlement program. I would like to see it quick.

Chairman GONZALEZ. To my right here is our legal counsel. She had just mentioned to me—of course, that there is a vital difference, Dr. Weicher. We have a 30-year stretch out in H.R. 1. That is a big difference financially and budgetarily. Also this is a thing we find very difficult, that if we were to have the same bookkeeping processes for such programs as housing as we have, say, in defense, we would have a very different picture of allocations and costs; very different.

I did want you to know that our legal counsel has been constantly trying to evaluate these very real and present differences. This is a staff that necessarily is involved in giving the shape and form to the legislation that we can conceptualize. We find it quite hard to try to get the language that will carry out that concept.

Dr. Butler?

Mr. BUTLER. Mr. Chairman, I was merely going to echo Dr. Weicher's recommendation. The voucher idea should be an enti

ment program with a single caveat. It should clearly be entitlement if one presumes the purpose of the Federal Government is to ensure adequate housing for low-income people. It would have to be an entitlement under those circumstances. People would have the right to such a system merely by virtue of their income. But we at the Heritage Foundation, and many others, are always concerned about what an entitlement means in practice. Very often the eligibility criteria for entitlements have a habit of becoming less and less strict over the years as more and more groups are said to require such an entitlement.

Therefore, I think it is probably true that within the administration there is a certain amount of concern about accepting the notion of an entitlement, while agreeing in principle with the objective of turning the Voucher Program into entitlement. I think the Voucher Program should be of the form of entitlement, but to address ratio concern, Heritage analysts have argued that perhaps one might do it in the form of block grants to States, with the eligibility being a State concern.

If the States wish to relax eligibility and provide the means within the State, that would be up to them. I am not sure that would be an adequate control over the total expenditures, but something like that needs to be done. There is a very widespread belief that the goal of vouchers and entitlement to vouchers is very worthy. There is just a great deal of concern about how one controls the costs and ensures that vouchers are truly targeted to those one is seeking to assist.

Mr. HARTMAN. Might I make a comment on the same point?

I am rather surprised, and I guess pleasantly so, to hear both Mr. Weicher and Mr. Butler agree that a housing voucher program should be an entitlement.

My sense is that if we were really to do that, the cost figures would in fact be even higher than what you, Mr. Chairman, have expressed. And that is because the administration's figures on what the amount of the voucher would be are, in my view, entirely too low to actually enable households to secure decent housing with that voucher payment. If we had a realistic voucher payment, and multiplied it out by the 11.8 million households, as you suggested, the figure would start off much much higher than the \$41 billion, and in fact would keep on inflating because the housing stock is totally inadequate.

I don't see how anyone can maintain there is enough decent moderately priced, adequately sized housing, vacant, and available for all those folks walking around with their vouchers. Without controls—and I don't think either of the two gentlemen on my right would agree there should be a strict program of cost controls in connection with the voucher—the price inflation would be staggering. The \$41 billion figure would keep on rising very very fast. I think it is important to recognize that. If we had an adequate Housing Entitlement Program that really works in the sense of enabling people to go out and get decent housing, I cannot conceive that almost everyone who is entitled to that would not go out and get it. There might be a few people who don't like it in principle, don't like the paperwork, don't hear of it. But if that program is available and publicized very close to 100 percent of the people eli-

gible would go after it. But that is a very, very expensive way of doing it.

That is why in our proposal we are suggesting ways to reduce cost of housing so that if the Government is going to go in with those kinds of subsidies, the costs are controlled and are markedly lower. The way I propose is much cheaper than vouchers.

Chairman GONZALEZ. Dr. Roistacher?

Mr. ROISTACHER. I would like to make a number of comments following up on all three of my colleagues.

I really think that the voucher is conceptually better designed than section 8 was. It is conceptually better designed, as Dr. Weicher pointed out, because a household would be able to spend more than the voucher on housing or a household would be able to spend less and keep the difference.

That is very nice. And the notion is that this would increase economic freedom. This comes back to something that Mr. Butler just said. Mr. Butler said the administration is concerned about more and more people becoming eligible under an entitlement.

But what we have seen is under this administration fewer and fewer people are becoming eligible because we have changed the income eligibility rules. Simultaneously we have increased the portion of income that must go to the voucher. So what we are doing is essentially creating an ideal structure which might be more efficient. But we are making it practically impossible to increase economic freedom by constraining the amount of money. So I think that is one very serious problem.

Second of all, I would like to note that there is some question of generalizing from the EHAP experiment and the concept of a voucher working to solve the problems in all housing markets. And I mention that again because your reference to San Antonio, you suggest it, the voucher is not enough. But there is another implication, and the question is will the voucher, by itself, be something which provides more and better housing or will it, as Dr. Hartman suggested, just pull up rents.

I would suggest instead of controlling rents in some way, that the solution is a voucher plus a number of other different types of housing remedies; probably some new construction where it is called for, or a lot more money for rehabilitation of the housing stock. We want to bring the housing stock which is available, but not up to standard, to a position in which it makes sense to apply a voucher to it.

So the voucher by itself is certainly not going to be the remedy. Finally, as for participation levels, the 50 to 60 percent participation figures that Dr. Weicher cited are correct for EHAP. But the reason the participation figures are so low is because there is built into the EHAP model what we call a minimum housing standard, which sounds perfectly reasonable if we want to spend money on housing that is of a good standard. What that means, of course, is if you are going to be able to be eligible for assistance, you have to move into a housing unit which meets that standard if you are already not in such a housing unit.

And one of the reasons that the participation rates were so low is that many households really felt that the combination of having to move and whatever the level of the EHAP support was, was not a

sufficient inducement. If you lower the amount of support that people get, and again the administration has done that by cutting eligibility and increasing tenant contribution levels, you create a disincentive. What that does is reduce program costs, but it ends up helping fewer people. So the low participation rate, 50 to 60 percent, should not be viewed as a favorable aspect of the Voucher Program.

I would like to make one modest proposal which I think is implicit in my earlier statement, but brings together many of the points already made here today. And that is if we are really committed to the concept of an entitlement and if we recognize that programs which are part of the annual budget process are susceptible to being cut every now and then, what we want is to give low-income renters and low-income owners the same entitlement benefits that accrue to homeowners in general.

What I suggest, although it is certainly not the appropriate time, politically, to do this, is that we build in a Renter Entitlement Program through the Tax Code—again, a refundable tax credit, not just for home owners, but also for renters. In a sense, it is a kind of voucher that everybody would be able to apply for, and it is a refundable credit. People like H&R Block, I am sure, would make everybody aware that such a thing was available. And all eligible households would be entitled to it.

Again, because it is basically an income supplement, I view it as a piece of what you might call a negative income tax, which is the solution probably that John Weicher would recommend, and perhaps Stuart Butler would recommend. But it would be costly. But I think it is the kind of thing that is worth thinking about.

Chairman GONZALEZ. I most certainly agree with you.

I have tried to point out during the last 3 years that our Nation, just like it has moved from being a producing nation to a consuming or sort of a dumping ground, we are also doing that on this level because from a home owning population, we are becoming a nation of renters, and there is very little law even at the State level that recognizes any kind of minimal renter's rights.

In many States they are nonexistent. I do think that we are going to have to more and more confront the fact that we are a renter Nation. So I certainly am most vitally interested in that. I had heard or read, I believe, of your proposal.

There is one question that has been suggested to me. Does the Experimental Housing Assistance Payment Program give sufficient information to justify a full-fledged Voucher Program?

Mr. WEICHER. I think it does, Mr. Chairman. I think we know more about how a housing allowance works than we have known about anything else before we tried it. We have had a history with the new construction programs, the last two-plus decades that after 6 or 7 years we, as a society body and administrations of both parties, come to the conclusion they are not working very well and try something else.

We have had sections 221, 235, 236, section 8, and now we have a voucher. I think that no single program is a panacea. But I do not think that one should expect that you will devise a program or a set of programs which will reach everyone who you would want to reach. I think that you can make the voucher more generous, as

Dr. Roistacher says, and you will get a higher participation rate. You can set a housing quality standard where you will or let the administration set the housing quality standard or the local authorities. And you will get more participation or less participation. It seems to me that those are matters that rightfully ought to be decided by policymakers, but that they do not change the basic policy which is or should be to provide some reasonable amount of help to everyone who you decide is entitled to that help.

And then you decide how much that should be, and how you want to condition that help on the quality of the housing. It seems to me we do know quite a bit from the housing allowance experiments that suggest that the costs will not be in the range of—will not be as great as the 40 billion that you mentioned, because of the lower participation. Some rough calculations I have been doing—if you would give people \$300 a month, all of them, that whole 11.8 billion would get you a \$42 billion expenditure.

And I think for \$300 a month in most markets you can get something that is quite reasonable, and that you will still not get an enormously high participation rate.

If you choose to go the negative income tax route, the tax credit route, I think you should first do some very careful comparisons of what the benefits now are that go to owners of rental housing and how those benefits get passed through in tenant rents.

Fundamentally, the difference it seems to me is that if you are a home owner, you don't pay tax on what would be the rent of the unit if you lived in it. You don't treat it as income. If you are a tenant, then the unit you are in is getting an accelerated depreciation, which is something that in my view probably gets passed through to you as the tenant in a lower rent.

I think that the idea of a tax credit for renters is a reasonable one. But I think you should be careful to make sure you don't tip the scales the other way and start creating incentives for people who rent rather than own. I doubt if you would want that.

Chairman GONZALEZ. If I may anticipate something here.

The statement you just made reminds me very much of the arguments advanced on the adoption of the Section 8 Voucher Program. What essentially do you see there that would be different—the existing section 8 and the voucher?

Mr. WEICHER. How does that differ from the voucher? Well, it differs in the ways that we have been describing before. In section 8, you have been limited to a fair market rent, and that has been the ceiling that you could pay for the unit. And you have had contracts between authorities and landlords.

The tenant, in some cases, is finding a unit; and in a lot of cases somebody is finding a unit for him. I think with a voucher you provide the tenant with additional freedom of choice, in one important way—as we have said, you let the tenant decide how much they want to pay for a housing unit. And then that, I think, makes a big difference in the way the program works on the individual level.

Chairman GONZALEZ. Yes.

Mr. BUTLER. Might I add to that?

It seems to me a key difference is that the marginal dollar from the vouchers comes from the tenant himself. Therefore, while provides him with a means to obtain housing, the cost decision

very much placed on him; whereas, under section 8 you are essentially providing a direct payment to the landlord. You have a different set of mechanics as to the effects on the decisions and on the bargaining between the tenant and the landlord.

I might also add as a footnote, it seems to me that a Voucher Program combined with price controls on rentals would be a disaster. It may be true there is an inadequate supply of low income housing at the moment. If you wish to guarantee an even smaller supply, place controls on rental prices. There is a very direct correlation between shortages in certain cities and rent control.

Indeed, I would argue if you have an extensive voucher program, it should be combined with a rule that any jurisdiction that obtains vouchers should be required to eliminate rent control.

Chairman GONZALEZ. Any further comments?

Ms. ROISTACHER. I just wanted to say when I proposed my credit for renters, that I actually propose it as a credit for low-income families and not for everybody across the board. The way to fund it is by rationalizing the tax benefits to high income owners, moving out of a system which is quite irrational—higher benefits for higher income people—and using the savings for funding a Low-Income Renter Program.

Mr. HARTMAN. If I might make one last comment in response to your question.

I have found it quite extraordinary that HUD and the administration point to the EHAP results as justification for the Voucher Program. I published a review of the EHAP results in the *Journal of Urban Affairs* in 1983 which I will send to you, and hopefully it can be made part of the record.

Chairman GONZALEZ. Yes. In fact, if I may interrupt, if you will make that available to us we shall make it a part of the record.

Mr. HARTMAN. In brief, EHAP showed that the participation rates were surprisingly low. They were quite high where there was no housing quality standard applied. In that case, it is like an income supplement. Anyone who has any sense will take it.

Where a housing quality standard is applied, where in order to use the voucher one must live in a decent house, that is when participation rates were very, very low. And the reason is that there is not an adequate supply of decent, vacant, moderately priced housing where people can use the vouchers.

There was little mobility caused by EHAP, because that was not possible given the nature of most local housing supplies. EHAP also showed there was very little investment in improvement of housing. The amount of the voucher was too low, and there was no guaranteed duration of the vouchers. So no rational landlord would invest a lot in bringing a substandard unit up to standard.

EHAP did not show an inflationary impact, simply because the amount of new housing money thrown into any of the local markets was minuscule. South Bend and Green Bay—where the most voucher money went in—the increase in total metropolitan area housing spending was 1.2 percent, hardly enough to cause an inflationary impact.

I would like to submit that article, plus a very interesting response to that article by Philip Abrams, who then was Under Secretary of HUD, and my response to Abrams, as part of the record

showing what the EHAP results were and why they do not justify a Housing Allowance Program.

Chairman GONZALEZ. We will be grateful for a copy of those reports.

There is one final thing that I must ask. In your presentation, Dr. Weicher, you reflected that the rate of availability or production of available housing was about on a ratio of 2 to 1 to the population. Your statistics would also reveal that there was a substantial—well, I guess you could say—overproduction of housing.

What Dr. Hartman is saying, which is in consonance with what we hear and see, is that there simply is not available affordable housing.

So I wonder if you could enlarge on your statistical presentation?

Mr. WEICHER. Certainly, Mr. Chairman.

We have got 90 million housing units in this country right now, and 230 million people. That is one housing unit for every 2½ of us—2 for every 5. That is a lot. That is more than we have ever had. In addition, we now have a vacancy rate of over 6 percent in the rental housing stock. That is a high rate. That is a very high rate by historical standards.

The problem that you address, and Mr. Hartman addresses much of the time—the key word, I think, is “affordable.” The housing is there; it is decent. It is expensive compared to the incomes of the people that we want to put in that housing.

The solution, I think, is not to start building more of it, with 90 million to begin with. I think the solution is to make that housing affordable. And you make that housing affordable by helping people, giving them the money to afford decent housing that there is.

I don't know Mr. Hartman's standard for what is decent housing. Standards that have been developed at HUD, the Congressional Budget Office show in the range of 9 percent of the housing stock being inadequate, and much of that seems to be inadequacy of a temporary kind—maintenance problems which happen and are repaired in the normal course of daily living, essentially.

I think that we have a good housing stock; we have a very good housing stock. We have poor people who spend a lot of money to live in that housing. We can help them.

We have some bad housing. We can upgrade a fair amount of that with the housing allowance. As we help poor people, we will find that, through a lot of ways we don't understand in advance, their housing will get better.

We have had an enormous improvement since the war in people's housing. Very little of that is directly attributable to the building of new units. We have better housing because people have more money. If we give them still more money, at the bottom of the income distribution, they will live in still better housing.

Ms. ROISTACHER. John recognizes there is some housing out there that needs to be brought up to some kind of standard before it would be a part of the voucher program.

It just seems to me there is a missing piece, and that is not new construction necessarily, not just a voucher, but certainly a focus on rehabilitation. And it obviously is going to vary from city to city, or housing market to housing market.

I don't think we really at this point have enough detailed knowledge of U.S. housing markets to know exactly where vouchers will be the solution, and where we need some other programs.

Chairman GONZALEZ. I think perhaps some of your statistics, well just within the last 5 years, 1980 to the present, I represent the number of dwelling units that have reached the unacceptable level at much more higher levels than, say, what the corresponding figure is now. But, you know, I would love to be a housing Robin Hood—to take those poor people, or those that need housing, those that are doubling up and tripling up that we find today, into that available unit you speak of being in great quantity.

But also I could be what I noticed Peter Grace say in a recent biographical sketch—I could be a benevolent dictator. Almost everywhere I go, including my own hometown, we have such a tremendous oversupply of office space, while businesses are going out of business in record numbers, such as we have not seen since the Depression, that you look over the vacancy rate and it is horrendous.

How could we fill them up unless we have businesses? I see the Apartment Association in San Antonio describe the fact that they have a very serious vacancy problem. But then I look at what you pay for those apartments in San Antonio. It doesn't look too bad when you consider what you have to pay around here. But it is still very high. And then how could I get a voucher that would enable me to get into those apartments, assuming they would let them rent there?

I think that is the problem. I think also that if we have a rosy picture, it is because of the miracle in the United States. I know of no other instance in history in any country where over a 40-year span you emerged from a level of, say, 60–65 percent unacceptable dwellings, and then in 40 years you reduce that to even less than 10 percent—except that FHA and S&L's had a lot to do with that.

What I am saying is that I don't think we can do what you say can be done unless we have first a national commitment to housing. And this is our fight right now. We must have a national commitment.

I don't know of any country that has not first had to have some acceptance of a national commitment before they can start providing housing for their citizens. I think, though, it is invaluable to have your input here.

As you can see, Mr. McMurray, our staff director, has done a beautiful job in presenting this array of panelists, because I think it does cover the spectrum of our thinking and our approach in a very calm way.

I would also like to take advantage to present the minority staff director, Mr. Bob Ruddy, who also has suggested a couple of questions we presented to you.

So thank you very much. Unless you have an additional statement you might wish to make for the record, thank you.

Before we adjourn, let me say we had done everything possible to bring responsible policymaking elements from the Department of Agriculture, because you might also know that the rural areas have serious problems. And the administration, in its budget presentation, has zeroed out the Farmers Home Administration.

But we have not been able to bring the Secretary, since the present one has been Secretary—we could not get him to authorize any other person. There is a vacancy now that has not been filled in the directorship of the Farmers Home Administration.

We needed to have somebody here, and I want to announce for the record that the Secretary adamantly has refused to furnish anybody from the Department of Agriculture to come and testify before the subcommittee.

This subcommittee has visited rural areas. It pains me to say that just 1 hour and 15 minutes' drive from here, on the eastern shore, we will see there migrant labor housing conditions that are just as bad as any of the poorest Third World countries you want to find anywhere; and, incidentally, with just as bad hygiene situations. I mean, it is sad and distressing. I thought I had seen the last of that 40 or 50 years ago in my own State. We have it.

So to say that the only available agency is going to be zeroed out, without specific hearings on the merits or demerits of that agency, is appalling. But we are confronted with it. And we could not get anybody from the Department of Agriculture.

The subcommittee will stand in adjournment until further call of the Chair.

[Whereupon, at 4:45 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR INCLUSION IN THE RECORD

**Cuyahoga Metropolitan
Housing Authority**



**Tenant Management
Research Report
1984**

3100

TENANT MANAGEMENT

A

**CUYAHOGA METROPOLITAN HOUSING AUTHORITY
RESEARCH REPORT**

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December 4, 1984

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INTRODUCTION

Tenant management programs developed as part of the outgrowth of a set of initiatives involved in the effort to reverse the physical, financial and social deterioration of public housing.

There is a strong belief held among some groups that management by tenants could result in improved living conditions. The basis for their belief could be summed up in the following:

First, tenants could establish their own priorities for improving their developments providing insight as to how MOD monies should be spent.

Second, tenants would respond more promptly to their fellow residents' housing and social service needs, exerting pressure on their peers to stop vandalism and to help make public housing developments more attractive places in which to live. As a result higher income residents might be attracted to public housing offsetting low rents of welfare recipients.

Third, rent rolls might also be increased because tenant managers would be better informed than housing authority employees about the activities of their tenants making it possible to identify tenants whose rents did not accurately reflect their current employment status.

Finally, employment among tenants could be boosted directly by hiring residents for tenant management staff positions and indirectly through community development activities.¹

Studies were conducted to examine this strong belief held by residents. One such study, the National Tenant Management Demonstration (NTMD) program funded by the U. S. Department of Housing and Urban Development and The Ford Foundation, was organized in 1975 at seven public housing developments. The intent of the Demonstration was

to assess the feasibility and test the effectiveness of tenant management as a means of improving the operating performance of public housing management and of increasing tenants' satisfaction with their housing.

The purpose of this report is to provide information about Tenant Management Corporation (TMC) programs from a variety of sources. This report contains a collection of histories of various TMC's around the nation, along with the views of housing experts, academicians and practitioners from various groups.

By providing an account of what TMC is, how it has evolved over its history and an assessment of the critical elements and pitfalls from other TMC programs, insight can be gained as to what TMC can be today and the potential that exists for success.

In reviewing the contents herein, it is hoped that the reader might gain knowledge of what these programs may offer regarding the viability of tenant management as a general strategy for public housing.

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SECTION I

HISTORICAL OUTLINE

HISTORICAL OUTLINE

- 1933 **NATIONAL RECOVERY ACT/NEW DEAL PROGRAM**
- 1937 **HOUSING ACT**
 Established Public Housing Program
- 1949 **HOUSING ACT**
 First Major Amendment/Slum Clearance Focus
- 1950 **DEVELOPMENT OF HIGH RISE PUBLIC HOUSING STRUCTURES**
- 1964 **CIVIL RIGHTS ACT**
 Development of Political Awareness
- 1965 **PRESIDENT LYNDON B. JOHNSON'S WAR ON POVERTY**
 Movement Improving Rights of Poor/LBJ's
 New Deal Program
- 1965 **HOUSING ACT**
 First Major Program Change in Low-Income
 Housing Created Section 23 Housing
- 1968 **ST. LOUIS RENT STRIKE**
 Led to Development of St. Louis Tenant
 Management
- 1971 **BROMLEY-HEATH SIGNS TENANT MANAGEMENT CONTRACT IN**
 BOSTON
- 1972 **FORD FOUNDATION GRANT FOR TENANT MANAGEMENT IN**
 ST. LOUIS
- 1974 **HOUSING AND COMMUNITY DEVELOPMENT ACT**
 Introduction of Section 8 Program
- 1976 **NATIONAL TENANT MANAGEMENT DEMONSTRATION**

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SECTION II

TENANT MANAGEMENT

A HISTORICAL OVERVIEW

TENANT MANAGEMENT
A HISTORICAL OVERVIEW

The public housing program represents the most predominant form of federal housing assistance for lower income families and individuals that persists to date. In the mid-1970's, it comprised about two percent of the housing stock in the United States and sheltered over three million people. Approximately 2,800 Public Housing Agencies (PHA's) or local agencies were responsible for about 1.2 million units in approximately 10,000 projects.

When the Public Housing Program was created by the Housing Act of 1937, the development of decent, safe and sanitary housing was only one of multiple purposes. In his book, THE QUALITY OF FEDERAL POLICYMAKING: PROGRAMMED FAILURE IN PUBLIC HOUSING, Dr. Eugene J. Meehan of the University of Missouri states that, "The original Housing Act was passed as a New Deal economic measure, not as a housing program."¹ Enacted first as a public works activity to provide jobs and stimulate a depressed economy, the public housing program was initiated to provide shelter to a "submerged" middle class of Americans temporarily dislocated by the Depression.² With serious mistakes made in all phases of the program development, selection of sites, project design and construction, Dr. Meehan contends that the public housing program has been handicapped from its inception.

Mr. Robert J. Rigby, Executive Director of the Jersey City Housing Authority (JCHA), further states in his book,

RESIDENTS AS A RESOURCE, that "The public housing program was not intended for the tenant population who have comprised its tenancy for at least the past two decades."³ At inception, the program was not designed for the poorest of families. It targeted temporarily dislocated middle class families who were experiencing the consequences of the Depression. The majority of the recent public housing population, with approximately three of every four households being primarily dependent on Welfare, Supplemental Security Income (SSI), Social Security and other forms of income, would not have been eligible for public housing.

By the 1960's, public housing had become a permanent home for the chronically unemployed or impoverished. At the same time, it came to be regarded as a welfare program to alleviate the classic problems associated with poverty, poor health, lack of education, crime and delinquency.⁴

With the cost of operations being offset solely by income derived from tenants, the Federal Government providing no subsidies, public housing authorities were inclined to view their role in more limited and traditional housing management terms. They did not regard themselves as agents of social change nor able to solve social problems. In a recent interview, Dr. Meehan tended to support this position, asking "Why can we (public housing) solve problems that the community is unable to solve?"⁵ However, even this limited role became more difficult as the costs of maintaining and operating public housing rose higher and higher.

The fiscal plan enacted by Congress demanded a tenant population with incomes and rent-paying ability that would rise in proportion and keep pace with program operating costs. With an economically poorer clientele, the program's fiscal design remained unchanged, widening the gap between income and expenses with rising costs due to inflation and the age of the developments.

In the absence of large federal operating subsidies, many public housing authorities were faced with a difficult choice--increase rents or reduce costs.

Since it was unrealistic to raise rents of low-income families beyond a certain point, many public housing authorities cut back on essential maintenance and repairs. Such cutbacks began a disastrous cycle of tenant dissatisfaction, increased rent delinquency, vacancies, vandalism and socially undesirable behavior which led to further escalation in costs. The result was an even greater gap between income and expenses and rapidly deteriorating living conditions for tenants. Charges that the authorities had failed not only as a housing program but also as a social service increased. "Critics cried that public housing was unable to provide and maintain clean and habitable housing, that the treatment of its residents was arbitrary and inhumane and that it was indifferent to the problems of its residents."⁶ Dr. Meehan calls this "the most arrant example of condemnation without trial in the annals of society,"⁷ further explaining that, "The principal implications pointed to a set of policies programmed for failure, impossible to implement

successfully in the 1960's
to correct or improve them." ⁸

By the 1960's and early 1970's, some large urban housing projects became characterized as "vertical slums." ⁹ In 1961 Congress attempted to address the problems enacting legislation to supply federal subsidies for the elderly. A provision of the 1965 Housing and Urban Development Act freed the public housing authorities of their obligation to pay all operating expenses out of rents collected and, in 1968 the Federal Government was authorized to subsidize the rents of very poor families with four or more dependent children. The Brooke Amendments (1969, 1970, 1971) to the 1937 Housing Act provided operating subsidies to public housing authorities on a permanent basis and granted additional reserve funds for those housing authorities facing severe financial problems. However, the effect of those amendments, which set rent ceilings at 25% of tenants' incomes, was to impose an even greater financial burden on public housing authorities.

Although the Federal Government finally intervened with a number of new approaches, mostly aimed at more financial aid, the Department of Housing and Urban Development (HUD) and other groups continued to explore additional approaches to the problems which plagued many multi-family developments. In 1967 as part of a new emphasis on guaranteeing due process, HUD issued its first directive dealing with tenants' rights.

HUD's program for low-income public housing modernization, created in 1968 and providing capital funds for physical rehabilitation, called for extensive resident participation in the modernization program:

To provide residents with the opportunity to express to management their concerns and interests relative to the physical improvement of the project.

To provide management with the opportunity to benefit from the suggestions of residents.

To establish or strengthen communication channels between residents and management.

To provide residents with a greater stake in their living environment.

To foster resident sense of responsibility in the care and maintenance of individual units and the common areas of the project.¹⁰

In 1968, HUD suggested the creation of resident modernization committees as the main vehicle for such participation. In 1968 as well, guidelines in HUD also encouraged local housing authorities to contract management services to private realty firms. The guidelines called for tenant involvement in the determination of management policies.

Concurrently, other efforts to develop tenant management emanated through various social agencies. The Office of Economic Opportunity (OEO) aided by two organizations, National Welfare Rights Organization (NWRO) and the National Tenants Organization (NTO) also had special relevance for public housing tenants in the 1960's. These organizations moved to attack the problems of the poor fostering protests and community action programs.

Increasingly, the poor gained power becoming recognized as a potential source for management of their lives. Although it has taken many forms and several models exist, this concept has come to be known as Tenant Management.

Tenant management is one response to the problems that afflict public housing in the United States. For residents whose existence may be shaped by circumstances beyond their control, these problems have created a growing demand for greater participation. In response to these needs the Federal Government has launched several initiatives that increasingly mandate tenant involvement.

In 1975 in order to test the effectiveness of tenant management, a national demonstration began, funded by the U. S. Department of Housing and Urban Development and The Ford Foundation. It is based upon a model developed for the St. Louis Public Housing Authority which instituted a tenant management program in seven public housing developments in that city. The National Demonstration was designed and managed by the Manpower Demonstration Research Corporation, a nonprofit intermediary organization established to develop and administer national demonstrations, beginning in June 1976 at seven public housing sites in six cities: Jersey City, New Jersey; Louisville, Kentucky; New Haven, Connecticut; New Orleans, Louisiana; Rochester, New York; and Oklahoma City, Oklahoma.

The basic program model is an outgrowth of the nationally funded demonstration in St. Louis. These programs involve the creation of Tenant Management Corporations (TMC's) which then contract with the local housing authorities to provide a range of management services. These bodies are governed by a board of directors elected by the tenant body itself. The board of directors, in turn, hires a resident manager and a supporting staff, to manage the property and carry out the day-to-day management tasks, such as routine maintenance, the leasing of apartments, and the supervision of security. In addition, the Tenant Management Corporations are responsible for overseeing their own operating budgets within the broad limits set by the housing authorities. The housing authorities retain the ultimate responsibility for these programs and provide assistance to the TMC's in appropriate areas, such as extraordinary maintenance, payroll processing and financial record-keeping. They also collect data and prepare reports for HUD.

When the demonstration began, however, it was recognized that St. Louis was not the only other tenant management program in existence. There have been five other efforts in tenant management located in four cities, Washington, D.C., Boston, Hawaii, and Newark, some of which are still in existence.

The following summary highlights the salient aspects of each program with information provided by William A. Diaz, housing

researcher and author of TENANT MANAGEMENT: AN HISTORICAL AND ANALYTICAL OVERVIEW and recent site visits. This information provides the historical context for the National Tenant Management Demonstration and adds to our knowledge of the viability of tenant management in public housing as it now exists.

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SECTION III

PREDEMONSTRATION
OF
TENANT MANAGEMENT

PREDEMONSTRATION OF TENANT MANAGEMENT

William A. Diaz, Senior Research Associate, together with others at Manpower Demonstration Research Corporation (MDRC), compiled the following information after a comprehensive investigation. All of these Demonstration efforts can be ranked according to the degree of tenant involvement.¹

WASHINGTON, D.C. - NATIONAL CAPITOL HOUSING AUTHORITY

Falling at the low end of the scale, the Tenant Management Program in Washington, D.C. began in 1973 and is the least complicated of the programs described. Its purpose was to determine the advantages and disadvantages of having tenants installed as property managers. There were no particular crises or problems leading to the program's creation; rather an opportunity was seen to try an innovative plan when funding became available. Funding for the program came from a three-year HUD Housing Management Improvement grant to the National Capitol Housing Authority (NCHA). Costs totaling \$14,000 were associated with planning and training, with additional salaries of \$9,000 per year, plus free rent being paid to each manager.

What resulted was a new tenant position in the housing authority management structure. The manager's duties include day-to-day management operation with responsibilities being shared with public housing authority area supervisors and central office staff. This process reflects a minor role for the residents and their tenant councils compared with other

demonstrations. However, it appears that tenant managers, while not required to report to the tenants or their councils, have taken an active interest in the welfare of the residents.

Upon initiation of the program, difficulties occurred related to the manager's lack of experience and inadequate training. While technical assistance continued, modest gains in improved tenant attitudes, general property appearance, increased rent collection and decrease in vandalism were reported by authority personnel. Despite the opinions of the housing authority personnel, it was felt that more training was needed along with technical assistance on an ongoing basis.

The receipt of HUD Target Projects Program (TPP) funds in the spring of 1977 allowed the expansion of this program to three additional properties. This program did not appear to have the enthusiastic support of the housing authority and small gains were somewhat offset by the costs of training and assisting the tenant managers.² On termination of federal support, the tenant management program continued under the housing authority's regular operating budget.

BOSTON, MASSACHUSETTS - BROMLEY-HEATH

At the opposite end of the spectrum lies Bromley-Heath Tenant Management Corporation (TMC). A five-year contract entered into with the Boston Housing Authority in 1971 gave virtually all management responsibilities, including accounting, legal and purchasing, to the TMC. Thus, the Bromley-Heath TMC functions as a "mini" housing authority.

Selected in June of 1968, the Bromley-Heath TMC grew out of efforts in the late 1960's by the Office of Economic Opportunity (OEO) to explore tenant management feasibility and establish such programs where possible on a demonstration basis.

Providing a total of \$565,000 in OEO funds to initiate the Demonstration, a TMC was established at the Bromley-Heath development after residents had petitioned the Boston Housing Authority to be selected. Through the years, additional grants were received to supplement regular HUD subsidies and rental income, including \$100,000 in TFF funds, plus \$50,000 in CDBG, but not until 1978 would approximately \$2 million in HUD funds be received for physical rehabilitation.

From the beginning of the contract, however, the housing authority adopted an indifferent, if not hostile, attitude toward the TMC.³ Although an orderly transfer of management responsibilities from the housing authority to the TMC was anticipated, this did not occur. According to Mildred Mailey, then Assistant to the TMC's Executive Director, the housing authority simply pulled its staff out of Bromley-Heath taking all it had there--equipment and supplies--while on paper retaining ultimate responsibility for the TMC.⁴ The TMC faced many problems left by the housing authority--leaky roofs, faulty boilers, and in many ways, started from scratch without assistance from the housing authority as agreed to earlier.

The TMC was challenged by serious problems, particularly vacancies and rent delinquencies which were attributed at least partially to its own policies and practices. Modest gains have been made in the areas of maintenance and security. The program, according to TMC officials, has improved over the previous Boston Housing Authority program.

Although the TMC has had continuing and severe problems, particularly with vacancy, rent delinquencies and financial deficits, consultants felt it did not appear likely that Bromley-Heath would have been better managed under the housing authority due to serious problems within the housing authority itself. The Boston Housing Authority suffered extensive problems and was placed in court-ordered receivership. Under a court appointed Master, a wide variety of changes in housing authority policies and practices were instituted. This generally has led to a much more supportive and sympathetic attitude toward tenant management whose concept is compatible with a general policy movement in Boston toward decentralization and greater use of contract management. Reports, however, note a general lack of interest in tenant management among Boston's public housing tenants making expansion of tenant management beyond Bromley-Heath unlikely.

WASHINGTON, D.C. - SHANNON AND LUCHS

Falling in the middle of the spectrum between the two extremes of Washington tenant management and Bromley-Heath,

another effort in Washington, D.C. involved a private housing management corporation, Shannon and Luchs, and an elected tenant governing board.

In 1968 the National Capitol Housing Authority gave management responsibility for two public housing projects to the private realty firm of Shannon and Luchs. Intent on involving the residents of both properties, Shannon and Luchs advocated the creation of active tenants' organizations that would meet regularly with property managers, and the hiring of a manager who would reside on the premises, and receive limited tenant management training. In addition, a community organizer was hired who became instrumental to the program of tenant involvement. The organizer kept residents fully informed on all aspects of management. Although the decision making authority remained with Shannon and Luchs throughout the first two years, the decisions reflected the desires of the residents.

The housing authority was neither hostile nor actively supportive of TMC. The mutually supportive relationship between the tenants and Shannon and Luchs created a basis upon which to expand tenant involvement.

Because the Demonstration did not include the creation of a tenant's corporation involving employment of tenants and the delivery of services, large sums of money were not required as in other tenant management programs. The Demonstration was supported by two annual grants of \$30,000 each from HUD.

Tenants also obtained several grants from a variety of agencies for social services or property improvement programs. However, at the end of the two-year demonstration period, the tenants voted not to assume responsibility for the management of their properties, preferring instead to leave management in the hands of Shannon and Luchs.

HAWAII - KOOLAU VILLAGE

An effort in Hawaii was also terminated after less than two years. The tenant management corporation created in 1974 at Koolau Village near Honolulu was initiated under HUD's Housing Management Improvement Program. It was a rather strong, if short-lived, version of tenant management and relatively problem-free. In the absence of tenant interest at urban developments in Hawaii with more serious problems, Koolau Village was selected because of the enthusiastic interest shown by members of the tenant association.

The one-year life of the TMC was without problems, partially because it was a small, trouble-free, nonurban housing project and also because the TMC received the support of the housing authority staff.

When federal funding for the program ended, the TMC went out of existence. Tenant apathy and the departure of two key members were factors in its demise. The experiment thus ended without sufficient benefit to pay the price in funding or in the time to keep it going.

ST. LOUIS, MISSOURI

Falling also in the middle of the spectrum, the most significant and well publicized tenant management program is the one found in St. Louis. Serving as a model for the tenant management program in Newark, it was also the prototype for the National Tenant Management Demonstration.

Tenant management in St. Louis evolved as part of the settlement to a long and bitter rent strike by public housing residents in 1968. Despite the fact that maintenance services had declined and housing conditions worsened, a new rent schedule tied to apartment size rather than tenant income increased rent for most tenants and precipitated the strike. When an agreement was reached in mid-1969, it called for sweeping changes in the structure and management. Not only were the rents rolled back, but provisions were made for the election by tenants of a Tenant Affairs Board (TAB) that would be involved in formulating housing authority policy. Under this new arrangement, a contract was formed between a tenant management corporation and the housing authority in which responsibility for the performance of management tasks is shared. Unlike Bromley-Heath, where the tenants have almost total independence, the housing authority retains control over accounting and purchasing, sets general personnel and wage policies, and collects rents. In contrast to the Washington Tenant Managers Program where the housing authority retains control over all decision making, members of tenant boards

are charged with hiring and firing staff and with establishing rules and regulations.

Based on improvements in management observed and reported by housing experts within and outside the housing authority, St. Louis TMC's developed a reputation as successful demonstrations. A study by the Center for Urban Programs at St. Louis University covering a period between mid-1973 and mid-1975 found TMC improvements in several performance areas--tenant participation, rent reviews, collection and occupancy, maintenance, social services, and security.

While the tenant management experience was viewed as positive, there have been problems related to a certain amount of tenant divisiveness as well as apathy evidenced by a lack of resident involvement in the affairs of the TMC. This has led to a lack of assurance that capable tenant leadership will exist in the future.

The relative success of tenant management in St. Louis has been facilitated by large amounts of funding. Grants in the amount of \$60,780 were awarded by The Ford Foundation for development of TMC's, support of the TAB, and in creating a variety of social service programs. HUD modernization funds totaled \$12.6 million and Community Development funding \$3.2 million. In addition, HUD provided another \$1.8 million in TPP grants to the housing authority from which the tenant management corporations received \$1.6 million. While a desire existed to establish TMC's in other city projects, funding for the

future was seen as a problem for both new TMC's and the continuation of existing TMC's.

Originally TMC's experienced good relations and strong continuing support from the housing authority. A recent site visit to Carr Square and Cochran Gardens revealed that this relationship has diminished with a number of changes in the housing authority Board and the Executive Director. According to William A. Pearson, Chairman of the Board, and Ernest Blackman, Special Assistant to the Executive Director, tenants voluntarily relinquished responsibilities and the housing authority regained control of five of the seven TMC sites.⁵ At the two remaining tenant management sites, the housing authority has centralized budgeting, maintenance and security operations. While most of a \$25 million UDAG grant was concentrated in Cochran Gardens, the authority is now attempting to equalize resources, focusing on other project needs, a step which has enhanced the credibility of the present housing authority and board within the resident community.⁶

NEWARK, NEW JERSEY - STELLA WRIGHT

In addition to the National Demonstration sites, the St. Louis experience created interest in other communities, most notably in Newark, where a major tenant management program is under way using St. Louis as an example. Also resulting from a long and protracted rent strike, the Newark program developed out of conditions similar in nature to that of St. Louis. Under an executive director favorable to tenant management, a new tenant

management program was initiated with additional assistance rendered by an outside civic organization.

The primary funding for Stella Wright was received through a \$6.9 million HUD Modernization grant and a \$1.5 million HUD TPP grant. These funds were used for staff salaries and other operating expense.

Modernization funds were used to renovate properties. The use of a marketing plan aimed at potential renters combined with more livable and attractive units eventually led to almost full occupancy of the once close-to-vacant development.

In the initial stages of TMC development, problems arose in creating a relationship of trust between the tenants and the housing authority. Through the efforts of consultants, the situation improved and progress toward tenant management advanced smoothly and according to plan.

SECTION IV

A COMPARATIVE ANALYSIS

A COMPARATIVE ANALYSIS

Tentative observations and lessons emerge along with a number of factors influencing consequences for the survival and performance of tenant management programs. Because the six tenant management programs varied in size, structure, operations and conditions of implementation, William A. Diaz makes the following comparison cautiously.¹

A tenant strike or severe conflict between tenants and the housing authority can act as a motivating factor toward tenant management. The Newark and St. Louis strikes led to a sense of cohesion and purpose among the tenants that was lacking at Koolau Village and in the Shannon and Luchs experiments. As important perhaps is the fact that such strikes or conflicts lead to a greater willingness among local and national entities to ameliorate the conflict. They also tend to increase the probability of attracting special funding.

The amount, nature, and continuity of technical assistance can make a difference in the effectiveness of a program. St. Louis and Newark support the proposition that technical assistance is essential for establishing a continuing tenant management program. The Shannon and Luchs experience, on the other hand, suggests that when such assistance is taken away, tenant involvement in management may decline. This seems to have occurred as well in Hawaii where tenant apathy

increased after the community organizer left the program soon after its initiation.

The continuity of tenant leadership itself is a factor in the stability of tenant management. In St. Louis some of the original rent strike leaders remain as leaders of the TAB and the TMC's; they have credibility among their resident constituency. In Boston, too, the leadership includes some of the same people who helped initiate the program. At Koolau Village and Shannon and Luchs, however, the demise of tenant management and resident involvement is partly attributable to the departure of key resident leaders. Whether new leadership can be created to sustain the enthusiasm of a group's original leaders to the extent that is required to keep tenant management strong has not been determined.

Cooperation of the housing authority leadership is very important. Bromley-Heath has suffered, until recently, from a lack of interest on the part of the housing authority. The TMC at Koolau Village died, in part, from the housing authority's disinterest and its refusal to provide the additional funds to keep the TMC in operation when federal funding ended. Conversely, Newark and St. Louis provide examples where the housing authority has been beneficial to program growth.

A high level of funding is necessary for the training period and the operations of a tenant management program. Only three cities can be compared on this factor: Newark, St. Louis and Boston; other efforts were too short-lived to provide

insight. Of the three, St. Louis and Newark seem more successful than Boston, due in part to the infusion of federal MOD and TPP funds. Moreover, these two experiences clearly show the need for additional operating funds for TMC's beyond the traditional rental and federal operating subsidy incomes.

Whether housing is well maintained and operated prior to tenant management has an effect on the development of tenant management programs. At the Shannon and Luchs properties and at Koolau Village, because the housing was adequately maintained and managed, lack of tenant interest either prevented further development of full tenant management or contributed to its demise once established. In essence, if there is little to be gained by tenant management, why should the tenants bother?

While there are no rigid program models of tenant management, several essential elements have been identified in the above findings necessary for success. Beyond these, local authorities and TMC's have the latitude to adapt tenant management programs to their individual requirements.

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SECTION V

NATIONAL

TENANT MANAGEMENT DEMONSTRATION

SITE EVALUATIONS

NATIONAL TENANT MANAGEMENT DEMONSTRATION
SITE EVALUATIONS

In order to provide a basis for an evaluation analysis, a brief description of each of the participating sites and its progress toward tenant management is presented below from Manpower Demonstration Research Corporation's (MDRC) book, FINDINGS FROM A THREE-YEAR EXPERIMENT IN PUBLIC HOUSING, and site visits. A variety of MDRC housing researchers have provided the following excerpts from their investigations. Designated as program manager, MDRC conducted training, provided technical assistance, monitored site operations and evaluated the results.¹

MDRC has noted that rates of progress between the sites varied widely and, as these profiles show, rapid attainment of the various tenant management benchmarks did not always ensure permanent success. Of the seven sites, there were four which closely approximated the demonstration model and were considered to be the most viable by the Demonstration's end in June 1978.

JERSEY CITY, NEW JERSEY - A. HARRY MOORE

"If a list of the one hundred-most-difficult-to-manage housing developments were assembled for the United States, A. Harry Moore would almost certainly be included."²

Mr. Robert J. Rigby of the New Jersey Housing Authority, during a recent site visit, said the conditions were not only deplorable but inhumane. Completed in 1954, its 664 units were in serious disrepair. Entry hall doors were

missing, the grounds unsightly, and vandalism widespread. Several other factors, in addition to its condition, were taken into consideration when the A. Harry Moore development was selected for participation in the National Tenant Management Demonstration (NTMD). Six out of every ten households were dependent entirely on public assistance. Eight of every ten households were headed by single parents (overwhelmingly female). The site housed over 1,200 children with more than half the total population (53%) consisting of persons under eighteen years of age.

However, in its favor, an active and vocal tenant organization and very strong building organizations had been formed. With the strong support and encouragement from Mr. Rigby, then Acting Director, these organizations were moving toward increased tenant responsibility. Tenants had commenced a site beautification program under a TPP grant and the repair of incinerators, tiles and roofing began through a \$3 million MOD grant received in 1975. Active interest in participation was clearly expressed in terms of both large attendance at preliminary tenant management meetings and the level of interest and understanding displayed in tenants' questions.

As the site moved toward election of a Board of Directors, critical issues were dealt with effectively, with a program outline drawn up and meetings held to formulate proposals for MOD and TPP budgets. With the election of a seven-member

board, all of whom had been active participants in the preliminary tenant management meetings, training began in July 1976. One year later, staff training commenced and lasted until 1978 when a contract with the Jersey City Housing Authority was signed.

The Board recruited and hired an experienced staff consisting of twenty-two members. The manager was an original board member and four building managers had been active in the former site committee. However, throughout the Demonstration, troublesome issues concerning staff proved to be somewhat complex. The relationship between the Board and staff was strained, affecting the staff's image in the community. Ineffective handling of maintenance problems led to recriminations among the Board staff and the housing authority. Although the Board attempted to resolve the problem and strengthen tenant management, it took nearly two years before a contract was signed.

At the end of the Demonstration in June 1978, the TMC was effectively and routinely managing A. Harry Moore, with this development being significantly a more decent place to live. Services have improved, the physical plant is in better repair and the community is better organized and able to meet its needs.

A recent site visit provided information as to the current physical conditions. Data assembled by the Jersey City Housing Authority and Robert Kolodny of Urban Strategies,

on management performance make it possible to examine the TMC's management effectiveness by standard management measures.

Shortly after the date in which it assumed full management responsibility, the TMC had maintained an occupancy rate of 98%. During the calendar year 1981, the vacancy rate was 1%. This compares with an Authority vacancy rate of 9% for the same period. This credible performance has been produced in the face of a relatively high incidence of turnover.

At the same time it has successfully dealt with a demanding turnover situation, the TMC has managed to realize a significant increase in the average rent charged. Measuring from the beginning of 1978 (the period just preceding TMC takeover) through the end of the first quarter of 1982, average rent at A. Harry Moore had gone from \$74 to \$108. This represents an increase of 47%. The average increase in rents for other authority sites which were not tenant managed came to 40%. A. Harry Moore clearly outperformed other Jersey City Housing Authority sites.

The TMC's performance in this area has been somewhat erratic. Prior to contract signing, the delinquency rate at A. Harry Moore was less than 5% and the figure has remained below this level. Most of the other Jersey City developments brought delinquency rates below the 5% mark somewhat earlier.

In 1981 A. Harry Moore had the highest productivity factor. In the final four months of 1981, workers handled an average of 9.41 work orders per day with the nearest competitor handling just under 8 work orders per day. This remains at this level today. Whatever role variables might have played in performance of other sites, A. Harry Moore's productivity is clearly high.

The TMC's productivity is measured by the number of work orders outstanding at month's end. During the first two quarters of 1982, A. Harry Moore brought its incomplete work orders to zero for six consecutive months and remains at zero today. A. Harry Moore's chart is comparable to those kept for the Authorities' elderly projects, and during the TMC's tenure, it has been visibly superior to those of other family sites.

In a recent interview with Mr. Audie Pew, Assistant to the Executive Director of Jersey City Housing Authority, he stated that these management indicators have remained at the same level today or have improved. He further stated that "A. Harry Moore would not be anywhere near where it is today in terms of management services if it were not for TMC." ³ MDRC concluded that the clear and consistent leadership of the Board's chairperson was a key factor in A. Harry Moore's progress, as was the supportive attitude of the Jersey City Housing Authority.

JERSEY CITY, NEW JERSEY - CURRIES WOODS

At the beginning of the Demonstration, MDRC found leadership at A. Harry Moore to be dull and plodding along while it found the leadership at Curries Woods to be charismatic, active and well organized. This led site planners to believe that the residents of the 712 unit family development built in 1959 outside Jersey City were capable of taking on management responsibilities. Initial community reaction to the TMC was favorable and a fourteen-member board was trained with the A. Harry Moore Board. The Curries Woods Board was active in training sessions and seemed more organized than the A. Harry Moore group. But transient weak leadership did not foster sustained enthusiasm from the residents. Further, contrary to initial beliefs, strong community support and the allegiance of tenant association participants did not automatically transfer to the Tenant Management Corporation. In fact the tenants' association, The United Community Council, wanted to co-exist with the TMC rather than disband as required by the Demonstration.

The site had a strong tenant association, a housing authority committed to tenant participation and had previously obtained MOD funding. Yet Curries Woods was the only site in the Demonstration that did not achieve TMC status. The housing authority attributes this to constant board turnovers and infighting among members. The leaders were more charismatic but short-term. In the period of the Demonstration, there were approximately seventy different board members. After

one and one-half years, the community removed the entire board. The transient group leadership did not have any roots nor develop any continuity. According to Mr. Pew, Curries Woods was never even close to contract signing.⁴ In spite of the infusion of large MOD funds, technical assistance, training and support from the housing authority Curries Woods was the only site that did not achieve the major threshold of tenant management--the signing of a management contract.

Prior to the Demonstration, Curries Woods was considered one of the better sites in the Jersey City Housing Authority with a predominantly working class and large population of seniors. As this site began to deteriorate, the tenant population began turning over to low-income single parent families with seniors moving out. A recent site inspection showed a desolate unkempt public housing development with gang wars and drug-selling daily occurrences.⁵ While the Jersey City Housing Authority is exploring alternate solutions, including use of MOD funds, heavy influx of security and possible demolition of several buildings, the quality of life at Curries Woods today is not only deplorable but no comparison to that of A. Harry Moore.

LOUISVILLE, KENTUCKY - IROQUOIS HOMES

Iroquois Homes, located in a predominantly white lower class community in Louisville, was built in 1952 and consists of seventy-two (72) low-rise buildings containing 854 units.

Comprised of 50% white, Louisville was experiencing racial upheaval as a result of court-ordered bussing. Evidence of racial cooperation surfaced with the election of a black president and a white vice-president to the Iroquois Resident Council.

This racial element, combined with the fact that strong support for tenant management was shown by the Resident Council, the Housing Authority of Louisville (HAL), Louisville's mayor, and the city-wide tenant organization, played a key role in the selection of Iroquois Homes as a Demonstration site.

Although six of the nine members elected to the Resident Management Corporation (RMC) were former members of the Resident Council, the new board lacked many of the skills necessary for effective organization. Membership, however, was stable with board training being administered by HAL and MDRC field representatives and consultants.

While the RMC had the benefit of an experienced and dedicated Resident Council president, the board did survive a period of uncertainty that followed the resignation of the Executive Director in April 1977. This was remedied when, after six months, HAL hired a new executive director who was also enthusiastic about the tenant management concept. Recruiting of staff members produced a generally low response. However, staff was recruited by October 1977, trained and has performed

efficiently. On July 13, 1978, the Resident Management Corporation signed a contract with the Housing Authority assuming responsibility for budget, maintenance of vacant unit preparation, and supervision of onsite HAL employees. Slowly a real partnership between the RMC and HAL has emerged.

The initial reluctance of HAL to relinquish management responsibilities to the RMC stemmed from employees' fears of losing jobs to the RMC staff. The RMC, on the other hand, perceived HAL as being too busy. Efforts to assuage these tensions resulted in the establishment of monthly meetings and an orientation program for HAL employees designed to enhance the relationship between the two groups.

Community support for tenant management also proved difficult to create with lack of interest and suspicion by residents impeding efforts. Community relations efforts were undertaken to involve the resident population and to clarify the role of the tenant management program in the community.

At the close of the Demonstration, the impact of the program was felt to be positive with many improvements stemming from the Demonstration. The HAL felt that tenant management had decreased both vacancies and rent arrears. The RMC appeared better able to complete

maintenance work than central management and corrections in record keeping increased the efficiency of modernization, accounting and management departments.

Strong motivated board members unified as a group to become effective community leaders and develop Iroquois Homes into one of the most successful tenant management corporations in the Demonstration.

The HAL presently has decided to implement tenant management in another public housing project through the assistance of Public Housing Urban Initiatives funds.

NEW HAVEN, CONNECTICUT - QUE-VIEW TMC

The Que-View TMC consisted of two housing developments totaling 260 units. Both were low-rise developments but Quinnipac Terrace, built in 1941 and possessing 248 of the units, was 29 years older than Riverview.

Many tensions between the TMC, the New Haven Housing Authority (NHHA) and MDRC developed during the Board's training. A large deficit and drain on morale produced by a housing authority on the brink of bankruptcy and departure of the executive director were major factors unforeseen prior to the selection of this site for the National Tenant Management Demonstration.

Internal problems within the TMC also kept Que-View from having a strong tenant management corporation. While the Board lacked leadership, the housing authority viewed MDRC

as a consultant insisting that training be executed according to their own manual rather than the Demonstration's Program Sequence Guide. Eventually the training consultants were dismissed and their responsibilities taken over by the NHHA executive director and his staff. Although the NHHA training manual was adequate, the housing authority staff did not have the experience or the sensitivity to tenant needs to properly convey its contents in a training context.

Further the housing authority continued to exercise control over the TMC by insisting the Que-View be among the first Demonstration sites to sign a management contract. MDRC, while initially maintaining that the TMC Board was unstable and lacking adequate training to enter into contractual agreement, eventually acquiesced to agreements presented by the TMC Board. This early contract signing led the Board and staff to believe that they were more prepared to manage their community than was actually evidenced.

In June 1978, after six months of extreme turmoil, the executive director resigned. While the strong-willed and somewhat intimidating presence of the first director had presented problems, the lack of interest and policy of "benign neglect" by his successor further antagonized the Board, who felt that they were not receiving enough support from the housing authority. Throughout the Demonstration period, NHHA's financial deficit increased causing maintenance delays, a union strike, staff resignations, reduced tenant services and drastic staff cuts.

Whether, in light of all these difficulties, a viable TMC could have eventually emerged is questionable. Prior to the allocation of new funding from HUD, the NHHA ended New Haven's tenant management experiment with its decision not to continue the tenant management program at Que-View.

NEW ORLEANS, LOUISIANA - CALLIOPE DEVELOPMENT

Consisting of 95 low-rise buildings containing 1,550 units near downtown New Orleans, Calliope was the largest development in the National Tenant Management Demonstration. With erection of the buildings starting in 1940, Calliope was in need of extensive renovation and modernization at the beginning of the Demonstration.

Unlike several Demonstration sites, Calliope's residents were generally very supportive of the TMC Board and staff. By fostering support through community-related events, the TMC's area meetings were consistently well attended.

Early in the Demonstration, internal strife paralyzed the TMC Board, but advantageous turnovers on the Board, favorable working relations with the housing authority and strong community support helped create conditions leading to the development of strong capable tenant managers.

During training the lack of organizational and decision making experience was evidenced by most of the ten-member TMC Board. Dissension among members was overcome by MDRC training consultants who deviated from the training schedule to instruct the Board in community organization, decision making and group relations. Turnover within the Board removed troublesome members and helped facilitate progress within the TMC. The Board, however, continued to progress slowly and in September 1976 a technical assistant was hired who proved instrumental in pulling the Board together and overcoming many early difficulties.

While the support of key Housing Authority of New Orleans (HANO) officials helped the TMC Board to increase its leadership capabilities, housing authority support below the executive level was inconsistent. Once HANO guaranteed employees jobs, relationships improved considerably.

The large Calliope community provided a large capable body of leadership from which to choose a TMC staff. A key factor in site progress was the hiring of the former site manager as Calliope's technical assistant. Being well accepted by the residents, he was able to bridge many gaps between the housing authority and the TMC. This was an important fact as residents, while fully trained, were still in need of considerable assistance in dealing with the intricacies of managing such a large project.

Although Calliope initially showed little potential for effective leadership, HANO and the TMC worked successfully as partners in site management and the New Orleans TMC grew during the program to become a very stable management body. Calliope proved to be a positive test of tenant management.

OKLAHOMA CITY, OKLAHOMA - SUNRISE ACRES TMC

Sunrise Acres incorporated several geographically separate communities into one tenant management corporation. The most cohesive neighborhood was a conventional housing development consisting of 150 units, Sooner Haven. Other developments included a four block area of 170 unattached single family houses, 90 attached single family houses clustered in private neighborhoods and 127 scattered single family units. This dispersion created an isolation of several of the TMC neighborhoods from the TMC, making input into TMC decisions and site management difficult. The lack of resident participation in TMC functions was obvious early in the program. There were also conflicts between the OCHA Board of Commissioners and its executive director, and a lack of leadership among the tenant representatives left the program without a real foundation.

Management problems within the housing authority compounded those of TMC. Internal disputes among the housing authority officials caused some of the employees to leave OCHA, including the executive director who, although not personally active, had vocally supported the TMC program. The new executive director was even less supportive and insisted on maintaining control of the TMC's actions.

In February 1978 he instructed his staff to write a management contract for OCHA and the TMC without involving the tenants. Although the contract was not signed until after the site had been dropped from the Demonstration, this exemplified the general attitude of the housing authority toward the Demonstration.

While the OCHA's interest had been the most sustained and seemed the most viable at the beginning of the Demonstration, it was felt that this site provided a good lesson in predicting when tenant management is likely to fail. Program activities were characterized by a long period of disorganization with continuous turnover in trainers, field representatives, housing authority personnel and board chairpersons.

The fluctuation of leadership at the housing authority was matched by the lack of leadership among the Sunrise Acres' residents.

Although training instructors worked continuously with the Board, its members never acquired organizational or leadership skills. Only a reconstitution of the Board, coupled with intensive long-term training and a new commitment by the housing authority, could create a successful tenant management program at Sunrise. With none of these conditions evident, Oklahoma City in mid-1978 was dropped from the National Demonstration.

ROCHESTER, NEW YORK - ASHANTI TMC

In Rochester, New York, the newest and smallest site of the Demonstration was formed by combining five separate public housing developments located within one mile of each other. Constructed in 1968, Ashanti was in good physical condition with an adequate delivery of services prior to the Demonstration. Totalling only 211 units, each small development could not singularly initiate such a program. Feeling that perhaps they could do so in cooperation with others, one manager was hired for the five developments, with each development maintaining its own tenant organization. Each tenant management organization continued to exist in the form of "block clubs" under the auspices of the Tenant Management Corporation. A representative was elected from each development to serve on the TMC Board of Directors.

The active participation of the Rochester Housing Authority (RHA) in training of the Board and the very heavy fusion of technical assistance and training resources assisted in Board growth and in establishment of an excellent working relationship between the RHA and TMC. While the stability of the RHA's executive director provided the continuity needed, a smooth transition was due to the enthusiasm and support of the RHA and to the TMC Board's strong leadership capabilities.

Demonstrating perseverance and dedication, Ashanti was the only site in the Demonstration to complete Board and staff

training as scheduled. There was little Board turnover with the initial chairperson remaining in office through the crucial first two years. Although the level of experience of the staff varied, the housing manager had been a president of one of the tenant associations with many staff members possessing prior experience with community-oriented groups.

Because the development was not beset by major problems, residents did not actively participate in TMC meetings, preferring to work through their respective block club representatives. Funding for increased social services, recreation programs and tenant employment opportunities made tenants receptive to tenant management.

While the TMC was not without its share of internal problems, it was able to maintain its stability and effectiveness. The conversion to tenant management occurred without major difficulty.

The Rochester Housing Authority anticipates continuance of tenant management at Ashanti with little variance from the program model. Both private and public sectors have awarded funds to the TMC to meet personnel expenses.

SECTION VI

NATIONAL

TENANT MANAGEMENT DEMONSTRATION

FINDINGS AND CONCLUSIONS

NATIONAL TENANT MANAGEMENT DEMONSTRATION
FINDINGS AND CONCLUSIONS

The major findings and conclusions of the National Tenant Management Demonstration and recommendations for future action where appropriate are presented below:¹

1. In most of the public housing developments in the Demonstration, tenant management worked just as well as previous management by housing authorities. This suggests that tenants can manage public housing projects effectively under certain conditions attainable in many projects. But it also indicates that, at least in the short run, tenant management does not usually produce results markedly superior to those stemming from conventional housing authority management. Specifically, tenant management was not significantly better than housing authority management in terms of individual performance indicators such as average rent collections, vacancy rates or speed of response to maintenance requests.

None of the above findings depended upon poor past performance by housing authority management; tenant managers were just as effective as their predecessors, even where the latter had been performing well and where no traumatic events like the St. Louis rent strikes had occurred. Nor did these findings depend upon the use of MOD funds as a concomitant of tenant management.² Therefore, we believe

tenant management may work effectively in a sizable fraction of existing public housing authorities, subject to the conditions described further below.

2. Compared to traditional public housing management, tenant management produced such additional benefits as (a) increased employment of residents, (b) a sense of personal development among participants in the tenant management organization, and (c) a greater overall satisfaction with the project management among residents, but also incurred significant additional costs. While these benefits are quite important, it is difficult--perhaps impossible--to quantify their importance.

Onsite tenant employment increased over the course of the Demonstration and exceeded HUD's desired--but infrequently attained--target of hiring 25 percent of project workers from among residents. Many jobs were created, particularly in TMC core management, social services, and aide categories. However, it appeared that without continued supplemental funding from HUD, most of these added jobs could not be sustained beyond the Demonstration.

Increased personnel accounted for most of the additional costs at the sites, adding from 13 to 62 percent to what continued traditional management would have cost. This wide range of added costs resulted from variations in levels of both tenant employment and numbers of units

involved at each site. It indicated the range of additional costs likely to be required by tenant management. However, many of the residents employed in tenant management positions would otherwise have been on welfare or receiving other public assistance. Among a sample of workers interviewed, 70 percent had previously been receiving some type of public assistance that they no longer required. Therefore, not all the additional personnel costs that housing agencies would have to pay to sustain tenant management represent net additional costs to society. Assessing the true magnitude of such net social costs, however, was beyond the scope of this Demonstration.

3. Creating effective tenant management takes widely varying amounts of time in different developments and requires certain preconditions. The most important of these is a strongly positive and cooperative attitude on the part of the public housing authority and the ability of executive directors to communicate their commitment to this new idea to the public housing authority staff and to mobilize housing authority resources in implementing it. In addition, adequate time should be available to train residents in general organizational skills, as well as in the specific tasks of managing public housing. Many residents elected as board members had limited or no previous experience functioning in such a setting; they had to learn basic board skills before they could deal

with tenant management issues effectively. However, neither extremely adverse prior conditions nor traumatic events like those preceding tenant management in St. Louis are necessary for successful tenant management.

4. Technical assistance is essential to the development of effective tenant management throughout its planning and implementation and well into the period after contract signing. The effectiveness of technical assistance depends upon support and acceptance from both the public housing authority and the tenant management corporation. However, identification and recruitment of adequate technical assistance personnel are difficult and time consuming because of the many skills required for this role. Board training took twice as long as had been anticipated by program planners, and provision of technical assistance to each board was needed throughout the course of the Demonstration. Although this need diminished in intensity, the boards required ongoing help to consolidate and further develop their decision making and planning abilities and to resolve internal conflicts. Moreover, the presence of nonpublic housing authority technical assistance appeared necessary for the TMC to develop as a truly independent entity. The use of both public housing authority and nonpublic housing faculty in the training of board and staff seemed successful.

Therefore, any attempt to institute tenant management in a large number of public housing projects would probably be most effective if a single organization were responsible for arranging and overseeing the complex process of training and technical assistance.

5. Because the tenant management organizations formed during this Demonstration were not in operation very long, it is difficult to draw firm conclusions about their possible longer range impacts upon either management performance or resident satisfaction. Therefore, we strongly recommend that HUD support continued tenant management in these projects for several more years and carefully monitor and evaluate their performance through existing HUD channels. Such monitoring and evaluation should cover benefits and costs of employment and community development impacts of tenant management. Future analysis of tenant management should focus not only on housing, but also on these broader nonhousing effects that are likely to produce significant social benefits and costs not dealt with in this Demonstration.
6. The prerequisites of successful tenant management exist in varying degrees in public housing projects across the United States. Sufficient numbers of qualified residents were available to fill tenant management corporation board and staff positions in all but one of the projects in the Demonstration. Although initial

turnover among top level TMC staff was high, performance was generally adequate, and the continuity and strength of the TMC were not impaired. We believe the resident capabilities for adequate tenant management exist in nearly all other public housing projects as well.

There are greater variations in the attitudes of public housing authorities and their executive directors toward tenant management. When this Demonstration began, very few expressed much interest in trying tenant management, even though major financial incentives to do so were offered. Their interest may rise once the results of the Demonstration become known and they realize that tenant management does not unduly disrupt housing authority operations. However, maintaining the necessary continuity of housing authority support for tenant management is often difficult because of relatively rapid turnover among executive directors. Consequently, we believe that tenant management has mixed probabilities of success in the nation's public housing projects.

SECTION VII

TENANT MANAGEMENT PERSPECTIVE

FROM

RESIDENTS, RESEARCHERS

AND

PRACTITIONERS

TENANT MANAGEMENT PERSPECTIVE
FROM
RESIDENTS, RESEARCHERS AND PRACTITIONERS

The concept of tenant management, from the tenants' perspective, is inextricably linked to the resident community.

Proponents of tenant management believed that community experience and perspective could be brought into focus while demonstrating the capability, concerns and commitment of the residents. With the decisions made directly affecting the quality of their own lives and those of their neighbors, tenants felt they would pursue sound management practices more vigilantly to make their homes and community a better place in which to live. In addition, being available onsite twenty-four hours per day, tenant managers would have the added advantage of being more responsive and sensitive to needs of the residents.

Through strong dedicated leadership, residents believed that tenant management would instill a sense of community and respect, enforcing the idea that "this is where you live--your home." ¹ Reflecting the hopes and needs of the residents, tenant management policies would create a feeling of trust and confidence from which real pride and enthusiasm toward community involvement would spring.

Believing that effective and responsible housing management begins with successful communication, tenants felt they

would more actively work to inform residents and initiate activities. Sensitive to the needs of their fellow residents, this communication would more easily and successfully result from tenant management activities.

Tenant managers would then act decisively to identify the needs and concerns of residents while providing opportunities for employment and career advancement never before available. With increased resident satisfaction, tenant managers would gain the ability to exercise control over their neighborhoods, leading to increased security and improved maintenance and upkeep of the grounds and buildings.

Based on these premises, this new management group, working as a team, would create a partnership with the housing authority whereby improved management services and better public housing would result. As more residents would become involved, a greater sense of pride transmitted to the community at large would enhance the overall image of public housing.

To implement this concept, Tenant Management Corporations (TMC's) were organized as another form of managing public housing estates with the principal managing agent being the resident group.

With the control, responsibility and authority to implement decisions, five general goals by which the success of resident management could be measured were developed:

- (1) Improved management performance
- (2) Reduction of crime, vandalism and antisocial behavior
- (3) Increased resident satisfaction
- (4) Provision of new employment opportunities for residents
- (5) Heightened community spirit

Perhaps the greatest test of tenant management from the tenants' perspective is their satisfaction with project conditions regardless of what they feel about management style or performance.

Positive trends appeared in the findings of Manpower Demonstration Research Corporation (MDRC) in spite of the fact that, at all six tenant management sites, there had been little change in the performance of important management functions.

The Urban Institute surveys generally report that residents at the sites were satisfied with tenant management regardless of the condition of the estate. (Table 7-18 listed as Appendix B on Page 84 summarizes findings in this regard.)

MDRC noted that a generally positive picture of TMC emerges from an examination of its performance from the tenants' perspective. Although little improvement in the performance of specific management functions was perceived, the increase in satisfaction with overall management was significantly greater for tenant management residents than for their control counterparts. Evaluation of the TMC produced a fairly positive

assessment of it--approximately half of the tenants felt it was able to get things done, and on the average, it was rated as doing a somewhat better job than the previous tenant organization and the public housing authority.

However, many noted housing researchers and practitioners in the field of public housing believe there is reason to regard tenant management with extreme caution in the absence of reliable supporting data.

Raymond J. Struyk, a housing expert who has written extensively on the subject, has concluded in his book, A NEW SYSTEM FOR PUBLIC HOUSING, that clearly tenant management cannot work for everyone. He continues to state that while tenant management is competitive with conventional management if implemented properly, "It is a delicate operation requiring good will, good people, extensive external assistance and substantial continuity."³

A study was prepared by Dr. George Wendel, Director of Center for Urban Programs at St. Louis University, on tenant management in St. Louis between 1973 and 1975. The overall judgment of TMC-managed developments, although mildly favorable, showed significant weakness in the areas of maintenance and rent collection. Very little advantage was claimed for tenant management with respect to the standard criteria of managerial performance.

The most influential of materials on tenant management has been an article by Richard Baron, one of the original organizers of TMC's. Formerly with the Legal Aid Society in St. Louis, Mr. Baron initiated a technical consulting firm for assisting and promoting TMC organizations. The crux of Baron's claim is that tenant managers have performed as well as conventional managers in respect to "hard" indicators of good management and much better in respect to "soft" dimensions of management.

Professor Eugene Meehan of the University of Missouri and author of many public housing books contends that information is insufficient and misleading, and no sound documented research has been conducted upon which to base findings and conclusions. He believes that, while the tenant management claims are impressive, the evidence does not support the claims with costs being ignored completely.

Stating that Baron uses assertion rather than argument, Dr. Meehan points out that inadequacy of TMC maintenance operations noted in the St. Louis University studies have been ignored completely. Further noting that increases in accounts receivable rose at the same level as authority-managed developments, Dr. Meehan adamantly asserts that most testable claims made in behalf of tenant management are simply mistaken. He further cautions of the danger in over hasty generalizations that fail in particular settings and lead to "unwarranted expansion of what turns out to be only a local success." ⁴

Carefully compiling and extensively documenting information, Dr. Meehan's study leaves little room for doubt with overall evidence supporting the findings that TMC managed developments in St. Louis were in no respect superior and in some respects inferior to other authority-managed projects. Accomplishments claimed for tenant management occurred in all developments as a result of heavy expenditures. Precisely, Dr. Meehan declares that "No management could have an impact on operations equal to the effect of expenditure changes of this order."⁵ If resources are adequate the conclusion is inescapable that the difference in the condition of life among developments is hardly noticeable.

In a recent interview Dr. Meehan summarized his beliefs stating that tenant management efforts have been characterized by irrational behavior, unsound economic activity and an almost totally unproductive use of real assets.

William A. Pearson, Chairman of the Board of Commissioners of the St. Louis Housing Authority for the past five years, believes that, while tenant management began with good intentions in St. Louis, it has been exploited and become big business. Stating that "the emergent leadership has grown and become very sophisticated," he feels that leadership is now "directed at wresting power from the legally constituted governing power and the uplifting of a few individuals."⁶

Although he believes leadership, particularly organizing within the tenant body, is desirable if done properly to

serve as a guide for tenants, he firmly notes that under legal contract, the Board maintains ultimate responsibility for the public housing authority.

Mr. Pearson goes on to deal with the more difficult and widely debated question of the role of public housing in the United States. Stating that the philosophy of the current leadership has changed, Pearson explains that instead of being support for temporarily dislocated individuals, many residents are now staying for as long as twenty-five years. With 20,000 people on the waiting list, he insists that this denies access to many and is discretionary toward a few. Believing that the whole philosophy of public housing has been impaired in its efforts to serve the large population, Pearson contends that "public housing is now providing a narrow population with better and better services."⁷

Gilbert Y. Steiner of the Brookings Institute mirrors Pearson's views in his critically acclaimed book, THE STATE OF WELFARE. He points out that, while public housing is a relief program to assist about 2.5 million poor, only about 10% of the poverty income population live in public housing or benefit from rent supplements. The number of dwelling units is far smaller than the number of eligible poor. Steiner questions why more units have not been produced to reduce the gap between the number of poorly housed and the number of available public housing dwellings asking, "Is public housing a success because it provides for 2.5 million, or is it a failure because it has not

provided for millions of others?"⁸ Steiner continues suggesting that, while public housing policy has never been extended to include social and psychological rehabilitation, public housing authorities have put their limited resources into services for residents rather than an emphasis on techniques to speed up construction once authorization of new starts were legislated. Concluding that the program has not made sufficient progress in either area, Steiner sums up his beliefs stating that, "No matter how exquisitely imaginative its design, any program that fails to produce enough goods to meet the needs of a big part of its clientele should merit reconsideration."⁹

Organizations such as The National Association of Housing Redevelopment Offices (NAHRO) and The Urban Institute have also researched tenant management expressing concerns regarding their findings from studies and task force reports. The Urban Institute conducted a major survey of 120 public housing authorities. The Institute found that the high performance groups, on the average, had higher levels of residents and staff satisfaction, better maintained buildings and considerably lower total operating expenditures while the tenants in low performance group authorities actually had significantly more authority in setting rules for the projects and in operations.¹⁰

A second study conducted by The Institute, and documented in KEYS TO SUCCESSFUL HOUSING MANAGEMENT further denoted that "where onsite managers took an increased responsibility, expenses

tended to be higher but both occupants and managers perceived the project to be working more effectively."¹¹ This study also documented several elements for management success. Crucial factors identified particularly relating to multi-family housing for low-to-moderate income households were seen as: firmness in enforcing rules, responsiveness to tenants' needs and the shouldering of certain responsibilities by residents.

Based on extensive interviews with housing managers and occupants across the country, proprietary interest, as is commonly believed, was not the key to successful housing management. Each ownership type included both well managed and poorly managed projects. Evidence clearly indicated that no one form of ownership or organization assured successful management.¹²

Although NAHRO supports and endorses the concept of tenant participation and tenant management as a means to more effectively serve low-income residents, some task force members report they are aware that "the question is not free from doubt and that an irresponsible delegation of public housing authority's responsibilities to tenant groups or other forms of tenant control may lead to chaos, confrontation and bad housing."¹³

Leaders of tenant management corporations have also acknowledged weaknesses of tenant management. In a recent interview, Loretta Hall, Resident Manager of Carr Square in St. Louis, stated, "As the wind blows, so does tenant

management policy,"¹⁴ explaining that, even after years of organizing efforts, the TMC's in St. Louis remain at the mercy of the housing authority and community.

While doubts persist among many housing researchers with little advantage being shown by competitive management standards, some TMC participants and housing authority staff remain firmly committed to tenant management efforts.

In a Journal of Law article, Richard Baron sets forth his views stating that the lessons of the 1960's clearly demonstrated that financial subsidies, while critical, will not alone restore public housing communities.¹⁵

In a report sponsored by The Ford Foundation, Allan Talbot states that, while tenant management efforts in each city have been more of a gamble than a prediction, he supports the concept of tenant management with its enormous potential for utilizing latent human resources. Believing this provides a new direction in public housing management, he states that it is essential for the housing authority to remain flexible enough to allow innovation and change instead of adhering to "I know what's good for them" philosophy.¹⁶

Mildred Hailey, respected community organizer and Executive Director of the Bromley-Heath TMC for the past ten years, states that, although in some instances conventional management has outperformed TMC's by management criteria, the TMC's have been more successful in the areas of tenant participation, leadership and social services. Ms. Hailey concludes that

nothing will be important and enduring without tenant participation as this is what will make permanent and lasting improvements and change.¹⁷

Enthusiastically supporting the concept of tenant management, Robert Astorino, Executive Director of the Louisville Housing Authority, believes there is a restoration of pride that comes from managing one's own affairs. He further cautions that with the role of government changing and less funding available, it will become increasingly important to "get more mileage out of the dollar."¹⁸

During site visits to Boston and Jersey City, the assistant directors adamantly echoed views that while TMC's had not been a panacea, some distressed sites would not have survived the turmoil of the 70's if it had not been for tenant management.¹⁹

In a recent interview, Charleen Regan, Private Management Contract Coordinator for the Boston Housing Authority, pointed out there are five individual management contracts with TMC as one entity. In a comparison of TMC to private contract management and conventional public housing management, Ms. Regan feels each arises out of a unique set of circumstances, usually at the tenants' request. She further explains that TMC's differ from other management with tenant managers viewing themselves as more than technicians. With total community responsibility, the TMC prefers instead to be involved in all aspects of decision and policymaking, thus providing valuable insight to the housing authority.²⁰

Robert Rigby believes that the Jersey City Housing Authority, suffering from general inner-city ills (inoperable utility systems, deteriorated facilities, wanton vandalism, infested debris, vacancies, etc.) reflected the economic and social state besetting the public housing program nationwide.

Further stating that tenant management was one of the few remaining alternatives in Jersey City, Mr. Rigby believes that it provided a focus around which to organize residents. Acting as a vehicle, this created a mechanism which over significant time could confront a gamut of issues arising throughout various phases of community life.

Considering the limitations inherent in original design and construction, the impact experienced at A. Harry Moore during the National Demonstration was quite dramatic. With the successful initiation of a tenant management corporation at a third family site, Montgomery Gardens, tenant management efforts proved beneficial in Jersey City.

However, he continued summing up that generalized statements are not valid as the individual requirements of each project will often dictate needs.

Concluding that, while tenant management can and does instill a sense of community and commonality lost in private sector neighborhoods, Mr. Rigby declares there is no single solution with problems being diverse in terms of market, clientele and demographics of each area.²¹

SECTION VIII

THE VIABILITY

OF

TENANT MANAGEMENT

AS A

GENERAL STRATEGY

FOR

PUBLIC HOUSING MANAGEMENT

THE VIABILITY OF TENANT MANAGEMENT
AS A
GENERAL STRATEGY FOR PUBLIC HOUSING MANAGEMENT

After extensive study, conclusions emerge concerning the viability of tenant management for public housing from the findings of noted housing researchers. The following sets forth potential constraints determined by William A. Diaz.¹

Tenant management cannot work everywhere. Not all tenants desire it; the daily task of management are too time-consuming and demanding. Some tenants also feel that the responsibility for public housing properly belongs in the hands of the housing authority. In other cases, residents may turn down the opportunity to take on fuller management responsibilities because the current management is quite satisfactory.

The lack of tenant interest also constrains the program in terms of broader community development aspects. None of the programs showed evidence that the desired community development and involvement had occurred or was occurring. Although tenant management involved some tenants in its operations and proved beneficial to those few, it still remains an open question as to whether it is capable of involving and benefiting the tenant population at large.

Apathy among tenants, the housing authority, and a community's civic leaders is another factor affecting involvement of TMC. If the tenants do not try to become involved this may lead to serious consequences,

particularly if the responsibility of the TMC rests on the shoulders of a small leadership cadre; lack of ongoing leadership then becomes a major concern.

Another potential tenant-related constraint is divisiveness within the tenant population. In none of the six cases did this seem to be a serious problem, though there is evidence that divisiveness and rivalries occurred in almost all cases. Such rivalries have affected the establishment and operation of many programs in low-income neighborhoods during the 1960's and 1970's. One way to overcome this and many of the other constraints on tenant management is through resident training and the provision of technical assistance. It can, however, be costly, as the need in all the programs is continual.

The housing authorities pose another constraint. Tending to be resistant to change in the traditional landlord-tenant relationship, no bureaucracy likes its routine altered, especially when a loss in power and authority results. There is also a sense among many traditional managers that theirs is a profession requiring many years of training experience. They resent and resist the idea that tenants can assume management responsibilities without this investment.

The final set of constraints is financial. Tenant management is more costly than traditional management. Costs arise from three sources: maintenance and repair, particularly when the housing has previously been allowed

to deteriorate; training and technical assistance at start-up and continuing into the program; and the creation of new positions, such as social service directors.

Despite the variety of experiences leading to tenant management in the six cities, one consistency does emerge. The federal government played a vital role in virtually all of the programs through financial assistance and, in some instances, direct initiation of tenant management efforts.

Although HUD has had a substantial role in subsidizing local public housing authorities, its crucial role in the development of tenant management has tended to be discounted or overshadowed by many observers who over emphasize the importance of local participants and events in the creation of tenant management.²

Housing authorities have, as noted earlier, generally been under great fiscal stress that has required the provision of regular operating subsidies from HUD in increasingly larger amounts. They are unable, therefore, to provide for the additional costs of tenant management from regular operating income including the annual HUD subsidy.

For modernization HUD is the sole source for the large funds usually required to rehabilitate public housing developments. Though limited, the modernization program is apparently large enough so that obtaining such grants does not pose a severe

constraint, assuming congressional support continues.³ Since 1968 over \$4 billion in capital improvement of public housing has been financed through HUD's modernization.⁴

It is the operating cost then that poses the really difficult problem. Such special HUD programs, are a limited and uncertain funding base, as are other federal programs and alternative private sources.

Despite these funding constraints, tenant management, as St. Louis demonstrates, can work. That is, it can provide management services on at least acceptable levels on a regular long-term basis with minimum of serious problems. Success in general is most likely to occur when the interests of the housing authority, the tenants, HUD, and the community come together. This will probably happen only rarely and under periods of great stress. Therefore, while tenant management can work, its general viability must be described as limited.

Following a two year national study, the conclusions of the Manpower Demonstration Research Corporation paralleled the above findings of William A. Diaz. After exhaustive study, MDRC provided further assessment of the potential for tenant management of public housing authorities.

MDRC housing researchers have determined that management by tenants is a feasible alternative to conventional public housing management under certain conditions. In view, however, of the stringent limits upon resources and the limited benefits derived, MDRC recommends that

the widespread implementation of tenant management not be regarded as a high priority objective and would not now expand tenant management further. While it would be unwise to mandate tenant management, either requiring it everywhere or prohibiting it everywhere, each individual housing authority should pursue tenant management if they so desire.⁵

In the most recent NAHRO study, WHAT HAPPENS WHEN TENANTS MANAGE THEIR OWN PUBLIC HOUSING, Dr. Robert Kolodny of Urban Strategies identifies twelve difficult issues to be addressed in the development of a tenant management program.

Prepared for submission to HUD's Office of Policy Development and Research, Kolodny's study emphasizes that the success of tenant management depends on how directly the following issues are confronted:⁶

1. UNDERSTANDING TENANT MOTIVATION

Tenants, while philosophically attracted to the concept of local control and joint effort with the housing authority to improve their environment, are motivated by personal interests--employment, political advancement and opportunity for training and skills development. For the successful implementation of any tenant management program, clear democratic procedures, accountability, internal controls and businesslike discipline must be built into any tenant management operation.

2. CREATING PROFESSIONALISM AMONG BOARD AND STAFF

Education to ensure responsible and ethical behavior is necessary to face both moral and practical issues and eliminate such practices as favoritism.

3. THE IMPORTANCE OF LEGITIMATE INCENTIVES

The public housing authority must eliminate ambiguity concretely defining legitimate needs and incentives for nonsalaried participants. In general, it is important to confirm the importance of board and staff providing appropriate office and meeting space, necessary equipment, and opportunity to attend meetings and conventions relevant to their roles.

4. TRAINING AND CONTINUED TECHNICAL ASSISTANCE FOR THE BOARD AND STAFF

As the TMC matures, training and technical assistance must be designed to provide for the changing needs. It is important to address relevant areas such as turnover among staff, team building, organizational development and to provide training in basic skills to overcome lack of confidence and defensiveness among tenant leadership due to lack of formal education and prior training.

5. RESIDENT OPPOSITION TO THE TMC

In organization for tenant management the likelihood that some residents will oppose it for the wrong reasons needs to be squarely taken into account. To limit opposition from dissident resident groups

fearing reprisal for previously undetected illegal activity, and other reasons, it is important to emphasize the rules and regulations tenants must abide by early in the training program and engage the support of city-wide tenant associations.

6. IMPORTANCE OF THE CONTRACT AND BUSINESSLIKE RELATIONS BETWEEN THE TMC AND PUBLIC HOUSING AUTHORITY

Development of and adherence to a formal written contract provides an objective basis to measure progress while recognizing the TMC as a capable, professional management organization. Encompassing performance standards and mutually agreed upon targets, continuous contract review is necessary as part of an annual renewal process. Ultimately, the contract is a reflection of the commitment undertaken as well as an important tool in disciplining and assisting participants in focusing on their mutual obligations to perform.

7. THE IMPORTANCE OF PUBLIC HOUSING AUTHORITY COOPERATION AND SUPPORT

While early studies clearly indicated support of the housing authority as a crucial factor in the successful tenant management venture, a more fundamental finding emerges from the TMC experience. Never totally independent of the housing authority, the TMC's are subject to the health of the public housing authority's

finances, the caliber of its personnel and the quality of its overall performance. While drawing from the strengths, TMC's are not able to surmount or immunize themselves against fundamental problems and weaknesses in their public housing authority.

8. KEY ELEMENTS IN A WORKABLE RELATIONSHIP
BETWEEN THE PUBLIC HOUSING AUTHORITY AND THE TMC

Although there are many important elements of a partnership, the following are vital to a continuing tenant management relationship:

- Carefully developed and continually adjusted contracts.
- Development of performance standards as a basis for measuring current levels of progress toward agreed-upon standards.
- Tenant understanding of the responsibility in managing a larger business and the requisite need for effective performance.
- Clearly identifying the board as the responsible agent for the TMC.
- Involvement of the TMC as a partner in overall public housing initiatives.

9. THE ADVANTAGES OF HAVING MORE THAN ONE TMC

Initially acting as a motivating factor in tenant management demonstrations, strikes and severe conflicts led to a sense of cohesion and purpose among tenants in early tenant management ventures. Today, less distressed developments can benefit from the knowledge and training of these early tenant management experiments. Acting as role models, pioneer TMC's

have taken a position to share information and assist fledgling TMC associations.

In addition, the mutual support and encouragement of multiple TMC efforts within public housing authorities and across the nation can create a community of effort which sustains both stronger and weaker tenant organizations.

TMC's can now benefit from support and resources not available to early tenant management organizations.

10. GETTING BETTER RESULTS FROM MODERNIZATION EXPENDITURES

Management of the modernization processing and securing quality work presented problems for most public housing authorities as well as TMC's. Tenant participation in monitoring is reported to have improved results somewhat although greater skill and attention applied to specification writing, bid preparation and construction is needed in this area.

11. FINDING AND NURTURING TENANT LEADERSHIP

The demonstration sites offer clear evidence that the necessary leadership can be found and developed at any reasonably sized public housing site. The special gifts of charismatic tenant leaders have been recognized at some TMC's. Leadership, however, can be developed at other sites with proper support and encouragement.

12. CREATING HIGHER TMC VISIBILITY AND CREDIBILITY WITH RESIDENTS

While delivering services and protecting tenants' interests is the fundamental way to build support, maintaining community visibility and support requires self-promotion. Boards need to learn to be adept at communicating their real achievements reinforcing the special nature and contribution of the tenant management corporation.

While this assessment offers no final evaluation of the tenant management concept in public housing, Kolodny's findings suggest tenant management embodies more potential than has been actualized. Although tenant management cannot be imposed on the nation's housing authorities, he feels public housing authorities can be educated and encouraged as to the potentiality when resident interest is manifested. Based on the practical lessons derived from the National Tenant Management Demonstration and his prior experience, Dr. Robert Kolodny concludes tenant management, although not an unalloyed success,⁷ remains a "promising but demanding approach to the many and interconnected problems of public housing."⁸

SECTION IX

CONCLUSION

CONCLUSION

Tenant Management evolved out of an effort to reverse the physical, financial and social deterioration of public housing.

To a large extent, public housing has become home for a somewhat permanent class of economically depressed people resulting in seemingly insurmountable management problems. For residents whose existence may be shaped by circumstances beyond their control, these problems created a growing demand for greater participation.

Through the Target Project Program (TPP) and demonstrations such as the National Tenant Management Demonstration, over 1,200 local authorities have had an opportunity to explore new methods for public housing management and tenant participation. Handicapped from inception, many public housing authorities have refined and updated management skills and abilities.

Over the past several years, substantial progress has been made by local authorities in carrying forward the objectives of participation involving a variety of efforts related to tenant involvement in management decisions and operations, tenant employment, and tenant access to supportive services designed to further upward mobility.

It is the consensus of researchers that tenant management was never regarded as an answer to all the problems of public

housing. Many problems--long term welfare dependency, high unemployment, and low educational levels--are rooted in general social conditions extending far beyond the public housing projects themselves.

The sponsors of the National Demonstration felt that, if tenant management was administered with care and evaluated thoroughly, it might prove an effective form of property management under certain conditions.

The initiation of tenant management efforts was based upon the implicit assumption that resident involvement in management operations would prove both socially beneficial and cost effective.

The previous findings presented in this report indicate that there is little to no evidence to support that view and some recent research appears, in fact, to indicate that the opposite may be true.

Determining how much, if any, of the change that occurred in public housing developments was attributed to the effects of tenant management efforts is a complex process. The Demonstration included far more than the concept of tenants managing a public housing development. The tenant management sites benefited from an enrichment of resources in the form of MOD and TPP funds, the provision of expertise in the form of technical assistance and specialized training, national attention and publicity and other benefits not characteristic of ordinary operating conditions.

The demonstrations have indicated that the prerequisites of successful tenant management do exist in varying degrees of public housing across the United States. While tenant management has generated a tremendous amount of interest, one fact remains evident. In proportion to the number of developments, successful tenant management remains an anomaly within each public housing authority and throughout the nation.

Based on previous summaries, some recent demonstrations have shown improved performance in various areas, according to standard management indicators. Reports conclude, however, that tenant management, with considerable additional funds committed for both larger staffs and long-term physical improvements, did not do objectively better than conventional public housing management.

While no clear pattern of consistent improvement in management performance has emerged from the research, an increase in tenant satisfaction and community spirit was reported by various researchers, tenant management staff, and residents alike. The National Demonstration and studies thus far have not been designed or conducted as an assessment of tenant management as a means to achieve social reform and improvement within a low-income community. Some housing researchers and community leaders believe this is a question that merits continued assessment of tenant management sites.

This is not to say that there cannot and should not be tenant participation in the decisions that affect and shape their lives.

New efforts to upgrade living standards and the environment through active resident involvement in public housing management have been endorsed by many community leaders, social organizations and housing researchers.

The wide variation in experiences among localities in tenant participation must be taken into account as well as the broad diversity of public housing requirements within an authority and across the country: in large and small communities; in single units as well as multi-family projects; and for elderly as well as family occupancy.

HUD, NAHRO, and other housing researchers have determined that national and local policies should encourage the development of a variety of ways to achieve the goals of participation in relation to the individual characteristics of each public housing authority, its own unique program and its tenants.

In selecting tenant management sites, three initial criteria have been established:

Housing authority commitment to the concept of tenant management.

Need for strong organizational and managerial potential of the tenants.

Existence of a cooperative relationship between the housing authority, the tenants, and the community.

The most important criteria are the readiness of the tenants and a positive and cooperative attitude on the part of the public housing authority.

The Cuyahoga Metropolitan Housing Authority is committed to exploring the feasibility of tenant management as well as looking into other forms of private contract management with a view toward developing alternate management systems.

Efforts to advance tenant participation in public housing must proceed from an understanding of the public housing program--its purpose as well as the legal, administrative, and financial framework within which it operates, for the best interests of the public housing program, the residents, and the community at large.

Today we are arriving at standards--standards upon which to build responsive, efficient management operations through which opportunities for employment, education and access to local resources can be provided low-income families in the community.

A sincere and continuous effort will be required by the housing authority, residents, and community, working in partnership to achieve mutual goals of creating a sound living environment and better public housing through increased tenant participation.

SECTION X

TENANT MANAGEMENT SURVEYS

THIRTY LARGEST PUBLIC HOUSING AUTHORITIES SURVEY OF TENANT MANAGEMENT

PUBLIC HOUSING AUTHORITY NAME AND LOCATION	TENANT MANAGEMENT DEVELOPMENT	NAME OF LEADER	NO. OF UNITS	DATE CONTRACT ENTERED	DATE CONTRACT TERMINATED	SCOPE OF CONTRACT	COMMENTS
New York City Housing Auth. 250 Broadway New York, N.Y. 10007	NONE	-	-	-	-	-	The HA feels this is a tactical error. Tenant councils exist & approximately 25% tenants are hired through civil service.
Chicago Housing Authority 22 West Madison Street Chicago, Ill. 60602	NONE	-	-	-	-	-	Tenant Council exist at each development with a city wide tenants organization.
Philadelphia Housing Auth. 2012 Chestnut Street Philadelphia, Pa. 19103	NONE	-	-	-	-	-	Tenant councils in each development form 2 umbrella agencies--Resident Advisory Board & City Wide Tenant Coalition to act as advocates of tenants & give suggestions.
Baltimore Housing Auth. 222 E. Saratoga Street Baltimore, Maryland	NONE	-	-	-	-	-	Resident Advisory Board consisting of two members from each development. Volunteers are used as security guards & monitors but are not tenant management.
Atlanta Housing Auth. 739 W. Peachtree St.N.E. Atlanta, Georgia 30308	NONE	-	-	-	-	-	43 Tenant Associations represent develop- ments with one city wide Advisory Council on PH. Two nonvoting tenants positions are designated on Board of Commissioners. En- ploy approx. 20% res.
New Orleans Housing Auth. 918 Carondelet Street New Orleans, Louisiana	B.W. Cooper (Calliope Dev. TNC) St. Bernard Project	V. Reynolds L. Watson	1,550 1,460	Sept. 1978 June 1981	1983 1983	Partial Partial	Funds for TN were discontinued in 1982. TNC has continued under HA although contracts were not resigned in 1983. Many conflicts have occurred between the TNC staff & Board. TNC staff declined to continue under civil service system & TNC Bd. will be abolished.

THIRTY LARGEST PUBLIC HOUSING AUTHORITIES SURVEY OF TENANT MANAGEMENT

PUBLIC HOUSING AUTHORITY NAME AND LOCATION	TENANT MANAGEMENT DEVELOPMENT	NAME OF LEADER	NO. OF UNITS	DATE CONTRACT ENTERED	DATE CONTRACT TERMINATED	SCOPE OF CONTRACT	COMMENTS
Boston Housing Auth. 52 Chauncy Street Boston, Massachusetts 02111	Bromley-Heath TMC	Milored Hailey	1,160	1971	Ongoing	Full	TMC has made some progress in areas of tenant grant participation, maintenance and security. Vacancy rate is 4 1/2 but CIAP has been received to rehab units with full occupancy expected within two years.
Newark Housing Auth. 57 Sussex Avenue Newark, New Jersey 07103	Stella Wright		1,200		Ongoing	Partial	
District of Columbia 170 12th Street, N.W. Washington, D.C. 20430	Shannan and Luchs Tenant Managers	Kimi Gray	379 249	Feb. 1970 1973	Feb. 1972 1978	Partial Partial	Tenants voluntarily relinquished contri- Very little tenant management involvement. Residents act as assistants to area managers.
Detroit Housing Auth. 2211 Orleans Street Detroit, Michigan 48207	Kentilworth Park NONE	Kimi Gray -	464 -	March 1982 -	Ongoing -	Full -	Strong, viable tenant management operation Never involved in tenant management. A Board of Tenant Affairs is located at each development. Some residents are employed in program. Contractors are requested to employ about 20% of the residents.
Dade County Housing Authority Box 250 Miami, Florida 33135	NONE	-	-	-	-	-	Tenant councils for each project form overall Tenants Advisory Council. Employ residents in Housing Authority and contract with tenant councils for lawn and other maintenance contracts.
Pittsburgh Housing Auth. 200 Ross Street Pittsburgh, Pa. 15219	NONE	-	-	-	-	-	Concept was proposed to residents in 1974 who voted "No." Each development has a tenant council. A city-wide council, the Metropolitan Tenant Organization, exists.

THIRTY LARGEST PUBLIC HOUSING AUTHORITIES SURVEY OF TENANT MANAGEMENT

PUBLIC HOUSING AUTHORITY NAME AND LOCATION	TENANT MANAGEMENT DEVELOPMENT	NAME OF LEADER	NO. OF UNITS	DATE CONTRACT ENTERED	DATE CONTRACT TERMINATED	SCOPE OF CONTRACT	COMMENTS
Los Angeles Housing Authority 4800 Brooklyn Ave P.O. Box 22018 Los Angeles, Calif. 90017	NONE	-	-	-	-	-	City wide Resident Advisory Council. Tenant Councils meet monthly w/ Central Office Mgmt. A few tenants employed in maintenance and clinical.
San Antonio Housing Authority PO Drawer 1300 San Antonio, Tx. 78295	NONE	-	-	-	-	-	Resident Associations meet with site mngs. & security coordinators. Meetings w/ HA are held once a year to discuss budget.
Memphis Housing Auth. 700 Adams Avenue Box 3654 Memphis, Tenn. 38103	NONE	-	-	-	-	-	Never involved in tenant mgmt. Active Resident Councils exist at each development w/ the presidents of each meeting once per month at the HA Board.
San Francisco Housing Authority 440 Turk Street San Francisco, Ca. 94102	NONE	-	-	-	-	-	Resident managers act as liaisons between residents and housing mgmt. staff. All employees are union but strive to hire 25% residents.
Minneapolis Housing Authority 217 South Third Street Minneapolis, Minnesota 55401	NONE	-	-	-	-	-	Never involved in TM. Resident Councils are located at each site. Small percentage of residents are employed at HA.
Cincinnati Housing Authority 16 W. Central Parkway Cincinnati, Ohio 45210	NONE	-	-	-	-	-	22 Resident Councils represent. Two representatives from each development form the Cincinnati Resident Advisory Board. Strive to employ 25% residents in HA.

THIRTY LARGEST PUBLIC HOUSING AUTHORITIES SURVEY OF TENANT MANAGEMENT

PUBLIC HOUSING AUTHORITY NAME AND LOCATION	TENANT MANAGEMENT DEVELOPMENT	NAME OF LEADER	NO. OF UNITS	DATE CONTRACT ENTERED	DATE CONTRACT TERMINATED	SCOPE OF CONTRACT	COMMENTS
St. Louis Housing Authority 1222 Locust Street St. Louis, Missouri 63103	Carr Square Cochran Gardens Darst Webbe Clinton Peabody Vaughn	L. Hall B. Gilke	658 578 656 275 657 656	March 1973 March 1974 March 1973 March 1974	Ongoing Ongoing 1983 1983 1982	Partial Partial Partial Partial Partial Training only	HA has centralized budgeting, maintenance, & security operations. Tenants voluntarily relinquished responsibilities w/ HA regarding control.
Dallas Housing Authority 2525 Lucas Drive Dallas, Texas 75219	NONE	-	-	-	-	-	Tenants organizations at each development with the president meeting monthly with Exec. Dir. or Deputy Director of HA.
Birmingham Housing Authority 600 North 24th Street Birmingham, Alabama 35203	NONE	-	-	-	-	-	There is a tenant council at each site w/ rep. of each forming a city-wide tenant council. Strive to employ 25% res. & displace res. employment in construction contracts.
Seattle Housing Authority 120 Sixth Ave North Seattle, Washington 98109	NONE	-	-	-	-	-	Tenant councils at each site w/ overall resident advisory council. One member of Res. Adv. Council is at Central Office. A tenant commissioner on HA Board. Few tenants are employed.
Nashville Housing Authority P.O. Box 846 Nashville, Tennessee 37202	NONE	-	-	-	-	-	Never involved in TM. Resident Associations exist at each development. President of council meets w/ HA Mgmt. Two members of Bd. of Commissioners are res. A few res. are employed & some by contractors.
Louisville Housing Authority 1411 Algonquin Parkway Louisville, Kentucky 40203	Troquois Homes Clarksdale	B. Downs	854	July 1978	Ongoing	Partial Training Only	Troquois Homes developed into one of the most successful TMC's in the National Tenant Management Demonstration.

THIRTY LARGEST PUBLIC HOUSING AUTHORITIES SURVEY OF TENANT MANAGEMENT

PUBLIC HOUSING AUTHORITY NAME AND LOCATION	TENANT MANAGEMENT DEVELOPMENT	NAME OF LEADER	NO. OF UNITS	DATE CONTRACT ENTERED	DATE CONTRACT TERMINATED	SCOPE OF CONTRACT	COMMENTS
El Paso Housing Authority Box 9895 El Paso, Texas 79989	NONE	-	-	-	-	-	Resident Association at each site meets monthly and periodically in its entirety w/ the HA. Try to employ 25% res. w/ some tenants hired in modernization area.
Buffalo Housing Authority 901 City Hall Buffalo, New York 14202	NONE	-	-	-	-	-	Tenant councils in each project send representative to monthly meeting w/ HA. Some tenants employed in maintenance and clerical.
Columbus Housing Authority 272 S. Gift Street Columbus, Ohio 43215	NONE	-	-	-	-	-	Resident councils at all sites. President of resident council meets monthly w/ Executive Director of HA. Tenants are employed in maintenance, clerical & administration.
Hawaii Housing Authority P.O. Box 17907 Honolulu, Hawaii 96817	Koolau Village	-	80	1974	1975	Partial	Strong, problem free TM attempt. Tenant death, departure of two key TM leaders & discontinuation of funding led to its demise.
Tampa Housing Authority P.O. Box 4766 Tampa, Florida 33677	NONE	-	-	-	-	-	Each complex has a resident association w/ one representative from each forming a city wide tenant council. Some tenants hired for maintenance & clerical.

PUBLIC HOUSING AUTHORITY			TENANT MANAGEMENT CORPORATION/ORGANIZATION									
NAME AND LOCATION	NO. PHA UNITS	NO. PHA HOPT. SITES	NAME OF TENANT MANAGEMENT DEVELOPMENT	NO. OF UNITS	AGE OF DEVELOPMENT - YRS.	PHYSICAL DESIGN	STAFF SIZE		SCOPE OF CONTRACT	CONTRACTUAL AGREEMENT STATUS		
							TMC	vs. PHA		WITH/WITHOUT BOARD	OPERATION	DATE TERMINATED
ALBUQUERQUE, NEW MEXICO Box 25044, 2200 University SE. Albuquerque 87125	1,100	35	Harper Place	59	2 Years	Townhouses	1	55	Partial	No	2 Years	1984
BOSTON, MASSACHUSETTS 52 Chauncy Street Boston 02111	15,700	71	Bramley-Heath Inc.	1,160	30 Years	High-rise Low-rise	57	-	Full	Yes	13 Years	Ongoing
HAWAII	5,832	71	Koolau Village	80	15 Years	Single Family	-	-	Partial	Yes	1 Year	1975
JERSEY CITY, NEW JERSEY 400 U.S. Highway #1 Jersey City 07306	3,700	9	A. Harry Moore Curries Woods Montgomery Gardens	664 712 456	25 Years 25 Years 26 Years	7 High-rise High-rise High-rise	6 2 4	1 1 1	Partial None Partial	Yes Yes Yes	6 Years 1 Year 5 Years	Ongoing 1978 Ongoing
LOUISVILLE, KENTUCKY 420 South 8th Street Louisville 40203	6,200	14	Iroquois Homes Clarksdale	854 786	27 Years 47 Years	Townhomes 58 Townhomes	2 5	-	Partial Training only	Yes Yes	5 Years 5 Months in training	Ongoing Ongoing
NEW HAVEN, CONNECTICUT 260 Orange Street New Haven 06510	3,750	4	Que-View	260	43 Years	Low-rise	-	-	Partial	Yes	1 Year	1978
NEW ORLEANS, LOUISIANA 918 Carondelet Street New Orleans 70130	14,000	12	B. W. Cooper (Calliope) St. Bernard	1,550 1,460	44 Years 45 Years	95 Low-rise Low-rise	16 13	12 12	Partial Partial	Yes Yes	5 Years 2 Years	1983 1983
NEWARK, NEW JERSEY 57 Sussex Avenue Newark 07103	12,933	28	Stella Wright	1,136	22 Years	Brick Structure	25 1,136 Units Only Partially Completed 1968	25 1,136 Units Only Partially Completed 1968	Partial	Yes	7 Years	Ongoing

CHARACTERISTICS OF THE TENANT MANAGEMENT ORGANIZATIONS

PUBLIC HOUSING AUTHORITY			TENANT MANAGEMENT CORPORATION/ORGANIZATION									
NAME AND LOCATION	NO. PHA UNITS	NO. OF PHA HOUSING SITES	NAME OF TENANT MANAGEMENT DEVELOPMENT	NO. OF UNITS	AGE OF DEVELOPMENT	PHYSICAL DESIGN	STAFF SIZE TMC vs. PHA	SCOPE OF CONTRACT	CONTRACTUAL AGREEMENT WITH/WITHOUT BOARD	YES. CONT. OPERATION	DATE TERMINATED	
OKLAHOMA CITY, OKLAHOMA 722 North Broadway Oklahoma City 73102	3,108	23	Sunrise Acres	537	14 Years	150 Conventional 170 Attached Single Family 90 Attached Single 127 Scattered	-	-	Partial	Yes	6 Months	1978
ROCHESTER, NEW YORK 140 West Avenue Rochester 14611	5,000	16	Ashanti	211	16 Years	5 Various Developments Townhouses	3	-	Partial	Yes	7 Years	Ongoing
ST. LOUIS, MISSOURI 4100 Lindell Blvd. St. Louis 63103	7,872	36	Carr Square Cochran Gardens Darst Webbe Peabody Vaughn	658 518 656 275 657 656	42 Years 31 Years 28 Years 23 Years 42 Years 27 Years	53 Low-rise 12 High-rise 4 High-rise 3 High-rise 53 Low-rise 4 High-rise	4 4 - - - -	4 4 4 4 4 -	Partial Partial Partial Partial Partial None- Training Only	Yes Yes Yes Yes Yes Yes	11 Years 10 Years 10 Years 10 Years 10 Years 1982	Ongoing Ongoing 1983 1979 1983 1982
WASHINGTON, D.C. 1133 N. Capitol, NE Washington 20002	11,054	52	Kenilworth Shannon & Luchs Tenant Managers	464 379 -	25 Years -	Row Houses High-rise Varied	42 - -	- - -	Full Partial Partial	Yes Liaison Com. No	2 Years 2 Years	Ongoing 1972 1978

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APPENDIX A
M.D.R.C. TENANT MANAGEMENT: FINDINGS FROM A
THREE-YEAR EXPERIMENT IN PUBLIC HOUSING

MODERNIZATION ACTIVITY
PROCESS AND OUTCOME

MDRC has noted that for many years housing authorities have faced increased maintenance problems because of deteriorating physical plants and because rental income controlled by federal regulations has not kept pace with the escalating costs of maintenance and repairs. Therefore, one of the major attractions in the award of the tenant management demonstration grants to sites was the allocation of \$20.2 million in special HUD monies, Modernization Funds (MOD), earmarked for physical improvements.

While none of the predemonstration tenant management sites had received such funds when introducing tenant management, sponsors of the National Tenant Management Demonstration (NTMD) felt that additional funds for physical improvements would be needed to provide an incentive for participation by public housing authorities and tenants, and for the success of the tenant management program. It was thought that MOD funds would encourage public housing authorities and tenants to participate in the Demonstration, improve the deteriorated physical condition of public housing, enhance the credibility of the tenant management corporation, and facilitate the achievement of some of the Demonstration's goals.

Based on the program findings, the Manpower Demonstration Research Corporation's (MDRC) assessment of the importance of modernization funds is mixed. With an overall completion rate

of 57% representing 45% of the total MOD allocation, sites varied considerably in the extent to which MOD work was completed (See Table 7-10). During the Demonstration, where MOD monies were initially a part of the tenant management package, drawbacks were evident resulting from delays in implementing MOD funds, the inexperience of novice tenant management groups in handling the complicated and protracted MOD process, and poor performance in terms of generating tenant employment.

The MOD experience was seen as having other consequences both positive and negative. The tenants' role was limited with residents communicating their concerns to the housing authority but having little actual control over the work. Where involvement did occur, the Tenant Management Corporation (TMC) was seen as being instrumental in monitoring and ensuring the quality of work and in encouraging progress by facilitating communications between the residents, housing authority and contractor. In its role as liaison with the tenant community, the TMC was exposed to the negative reactions of the community resulting from heightened expectations and frustrations when improvements did not materialize.

Delays in the completion of MOD work proved to be a major problem for the TMC's. However, this situation did not seriously impede tenant management at any of the sites. Less than 1% of the tenants surveyed by the Urban Institute indicated physical improvements as the most important purpose of the TMC.

From these findings, housing experts have suggested that physical improvements to the site were not seen as a satisfactory means of gaining support for tenant management. With modernization activities falling primarily under the direction of the housing authority, tenants felt that these improvements were not unique to tenant management and further, believed that living in clean, safe and attractive housing to be a right rather than a privilege.

When looking at the Demonstration experience and those of the predemonstration programs, the conclusion suggested that MOD funds are not a necessary ingredient for an incipient tenant management program. What seems more important is that TMC's have control over site improvements when they do occur. At the first two nondemonstration tenant management sites, St. Louis and Boston, MOD funds were available to the Tenant Management Corporation only after several years of operation. Findings suggest that, while MOD funds are not unimportant, it may be preferable to postpone major MOD activities until the Tenant Management Corporation has achieved some stability. When MOD funds did become available, they provided a focus around which TMC Boards could make concrete decisions thus solidifying and strengthening the TMC's position with the resident community.

Table 7-10. Modernization Projects: Summary of Activity at End of Demonstration.

Site ^a	Actual Funds Allocated to MOD Projects (\$)	Funds Spent as of 6/30/79		Items Completed as of 6/30/79		Items not Begun or in Architect's Design Phase as of 6/30/79	
		Amount (\$)	Percentage of Allocation	Percentage of Total Projects	Percentage of Total Allocation	Percentage of Total Projects	Percentage of Total Allocation
Jersey City: A. Harry Moore	966,734	675,030	68	46	46	15	10
Jersey City: Curries Woods	1,015,266	751,004	74	38	43	7	7
Louisville: Iroquois	3,500,000	3,254,837	93	80	91	10	6
New Haven: Que-View	1,669,800	690,059	44	28	13	47	39
New Orleans: Calloope	6,524,000	2,738,123	42	60	25	30	46
Rochester: Ashanti	306,680	287,006	94	93	94	7	6
All sites	14,012,480	8,395,059	60	57	45	20	29

a. Oklahoma City not included; total MOD allocation was \$1,807,880.

Sources: Quarterly MOD reports submitted by the sites and PHA staff.

APPENDIX B

200 TENANT MANAGEMENT

Table 7-18. TMC Tenants' Evaluation of the TMC.^a

<i>Tenant's Evaluations</i>	<i>Average or Percentage of Respondents</i>	<i>Number of Respondents</i>
Overall		
Residents believing TMC is able to get things done		
Yes	47.0	(62)
No	32.6	(43)
Don't know	20.4	(27)
Total	100.0	(132)
Residents believing TMC has made things better for		
Most of the tenants	26.5	(35)
Some of the tenants	23.5	(31)
Few of the tenants	23.5	(31)
None of the tenants	9.8	(13)
Don't know	16.7	(22)
Total	100.0	(132)
<u>TMC versus Old Tenant Organization</u>		
Residents believing TMC represents the tenants		
Better than old tenant organization	28.0	(37)
Same as old tenant organization	27.3	(36)
Worse than old tenant organization	18.1	(24)
Don't know	26.5	(35)
Total	100.0	(132)
Average Score ^b	1.13	(97)
<u>TMC versus PHA</u>		
Residents who believe TMC is managing project		
Better than PHA	26.5	(35)
Same as PHA	34.1	(45)
Worse than PHA	22.0	(29)
Don't know	17.4	(23)
Total	100.0	(132)
Average Score ^b	1.06	(109)

a. Limited to respondents who knew there was a TMC/tenant organization (N=132).

b. 2 = better; 1 = same; 0 = worse.

Source: Suzanne B. Loux and Robert Sedacca, "Analysis of Changes at Tenant Management Demonstration Projects," Working Paper #1335 (Washington, D.C.: Urban Institute, 1980).

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Interview June 13, 1984

TIM VALENTINE
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AND TECHNOLOGY
SUBCOMMITTEES
NATURAL RESOURCES AGRICULTURE
RESEARCH AND ENVIRONMENT
ENERGY RESEARCH AND PRODUCTION
SCIENCE RESEARCH AND TECHNOLOGY

Congress of the United States
House of Representatives
Washington, D.C. 20515
March 1, 1985

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MAR 4 1985

Hon. Fernand J. St Germain
Chairman
House Banking, Finance and Urban
Affairs Committee
2129 Rayburn House Office Building
Washington, D. C. 20515

Dear Mr. Chairman:

Enclosed herewith is a copy of one of the hundreds of letters I have received from constituents who are participants in the Farmers Home Administration Rural Rental Program, expressing their concern about the Administration's proposal to eliminate this type of project through budget cuts.

I would greatly appreciate your bringing my constituents' concerns to the attention of the members of the committee at the appropriate time.

Thank you.

Cordially,



Tim Valentine

TV:ggc
Enclosure

FEB 27 1985

February, 25, 1985

Congressman Tim Valentine
1107 Longworth House Office Building
Washington, DC 20515

Dear Congressman Valentine:

I am a resident in a FmHA rural rental development in North Carolina. It deeply concerns me that this type of project may be eliminated from the proposed budget which our current Administration has presented.

The Farmers Home Administration program is essential for rural communities such as ours. It provides us with nice living quarters at affordable rent rates.

We urge you to do everything possible to help the continuation of the Farmers Home Administration Rural Rental Program. It has been extremely helpful to many of us.

Sincerely,



FmHA Tenant

P-2 Pender sq
TARBORO N.C.
27886



Federal Emergency Management Agency

Washington, D.C. 20472

28 1500

Honorable Henry B. Gonzalez
Chairman, Subcommittee on
Housing and Community Development
Committee on Banking Finance
and Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In 1968, Congress passed the National Flood Insurance Act which created the National Flood Insurance Program. This Program was designed to reduce future flood losses through local flood plain management efforts and to transfer the costs of residual flood losses from the general taxpayer to the flood plain occupant. This Program represented a major shift in strategy from previous structural flood control and disaster relief efforts.

Congress recognized the need for flood risk studies to provide data upon which local flood plain management and actuarial insurance rates would be based. Thus, the 1968 Act authorized a program of risk studies to be completed over a 15-year period following passage of the Act. An Emergency Program was also authorized by the Housing and Urban Development Act of 1969, to provide limited amounts of flood insurance coverage prior to the completion of a community's flood risk study. In 1983, when this 15-year period was to expire, the Federal Emergency Management Agency recognized the need to conduct additional risk studies and requested Congress to extend this period. In November 1983, Congress passed Public Law 98-181 which extended authorization for flood risk studies until September 30, 1985. Section 451(d) also required FEMA to submit to Congress, by September 30, 1984, a plan for bringing all remaining unstudied communities into full program status by September 30, 1987.

It is my pleasure to submit the Federal Emergency Management Agency's comprehensive plan for providing full program status to approximately 6,500 floodprone communities which participate in the emergency phase of the National Flood Insurance Program (NFIP). The enclosed Risk Studies Completion and Full Program Status Plan is the culmination of a series of comprehensive assessments which include: a demographic survey of all unstudied floodprone communities to determine their future flood plain development potential; a review of all unstudied communities by the Federal Emergency Management Agency's Regional Offices, in concert with the appropriate States agencies, to determine individual community study needs; and, a screening of communities by the U.S. Geological Survey to ascertain which might be studied with less-costly and

less time-consuming methodologies. A benefit/cost approach was also utilized in order to determine the most cost-effective study decisions. The plan describes these assessments in detail, provides Congress with two options for providing full program status to the unstudied floodprone communities, and outlines the associated resource requirements. The effectiveness of this Plan is demonstrated both in the timely manner in which full program status will be provided and in its cost. This Plan represents a savings of \$164.6 million over previous less comprehensive assessments.

The Risk Studies Completion and Full Program Status Plan is a realistic, objective, and, at the same time, a challenging plan for fulfilling the Congressional mandate to provide the appropriate flood risk information to all identified floodprone communities. The Federal Insurance Administration is committed to applying the staff and resources to insure its timely completion. Through these intensive efforts, significant progress will be made in protecting lives and property from devastating floods and reducing taxpayer outlays for future flood damages.

I would be pleased to provide a briefing on the Plan for you and your staff. If you desire such a briefing, please contact our office of Congressional Relations at 287-0400.

Sincerely,



Jeffrey S. Bragg
Administrator
Federal Insurance Administration

Enclosure
NFIP Risk Studies Completion
and Full Status Plan

cc: Subcommittee Members

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NATIONAL FLOOD INSURANCE PROGRAM

**RISK STUDIES COMPLETION
AND
FULL PROGRAM STATUS**

A PLAN
PREPARED FOR THE
NINETY-EIGHTH CONGRESS
OF THE
UNITED STATES OF AMERICA



**Federal Insurance Administration
Federal Emergency Management Agency**

Washington, D.C.
September, 1984

3213

NATIONAL FLOOD INSURANCE PROGRAM

**RISK STUDIES COMPLETION
AND
FULL PROGRAM STATUS**

**A PLAN
PREPARED FOR THE
NINETY-EIGHTH CONGRESS
OF THE
UNITED STATES OF AMERICA**

**BY THE
FEDERAL INSURANCE ADMINISTRATION
FEDERAL EMERGENCY MANAGEMENT AGENCY**

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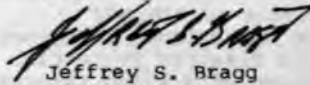
Foreword

In 1968, Congress passed the National Flood Insurance Act which created the National Flood Insurance Program. This Program was designed to reduce future flood losses through local flood plain management efforts and to transfer the costs of residual flood losses from the general taxpayer to the flood plain occupant. This Program represented a major shift in strategy from previous structural flood control and disaster relief efforts.

Congress recognized the need for flood risk studies to provide data upon which local flood plain management and actuarial insurance rates would be based. Thus, the 1968 Act authorized a program of risk studies to be completed over a 15-year period following passage of the Act. An Emergency Program was also authorized by the Housing and Urban Development Act of 1969, to provide limited amounts of flood insurance coverage prior to the completion of a community's flood risk study. In 1983, when this 15-year period was to expire, the Federal Emergency Management Agency recognized the need to conduct additional risk studies and requested Congress to extend this period. In November 1983, Congress passed Public Law 98-181 which extended authorization for flood risk studies until September 30, 1985. Section 451(d) also required FEMA to submit to Congress, by September 30, 1984, a plan for bringing all remaining unstudied communities into full program status by September 30, 1987.

It is my pleasure to submit the Federal Emergency Management Agency's comprehensive plan for providing full program status to approximately 6,500 floodprone communities which participate in the emergency phase of the National Flood Insurance Program (NFIP). The Risk Studies Completion and Full Program Status Plan is the culmination of a series of comprehensive assessments which include: a demographic survey of all unstudied floodprone communities to determine their future flood plain development potential; a review of all unstudied communities by the Federal Emergency Management Agency's Regional Offices, in concert with the appropriate States agencies, to determine individual community study needs; and, a screening of communities by the U.S. Geological Survey to ascertain which might be studied with less-costly and less time-consuming methodologies. A benefit/cost approach was also utilized in order to determine the most cost-effective study decisions. The Plan describes these assessments in detail, provides Congress with two options for providing full program status to the unstudied floodprone communities, and outlines the associated resource requirements. The effectiveness of this Plan is demonstrated both in the timely manner in which full program status will be provided and in its cost. This Plan represents a savings of \$164.6 million over previous less comprehensive assessments.

The Risk Studies Completion and Full Program Status Plan is a realistic, objective, and, at the same time, a challenging plan for fulfilling the Congressional mandate to provide the appropriate flood risk information to all identified floodprone communities. The Federal Insurance Administration is committed to applying the staff and resources to insure its timely completion. Through these intensive efforts, significant progress will be made in protecting lives and property from devastating floods and reducing taxpayer outlays for future flood damages.



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I. Executive Summary

Public Law 98-181, Section 451(d), enacted on November 30, 1983, requires the Federal Emergency Management Agency (FEMA) to submit to Congress "a plan for bringing all communities containing flood-risk zones into full program status by September 30, 1987."

"Full program status" refers to participation in the Regular Program phase of the National Flood Insurance Program (NFIP). The NFIP consists of an Emergency Program phase, under which communities are provided federally-subsidized flood insurance in limited amounts, and a Regular Program phase under which additional limits of flood insurance coverage are provided at actuarial rates. Communities participating in the NFIP are required to enact certain floodplain management measures, in accordance with the amount and nature of flood risk data provided by FEMA, to guide new construction and reduce future flood damage.

As of the start of FY 1984, 7,826 communities were participating in the Emergency Program which is authorized until September 30, 1985. Figure 1 provides information on the status of communities in the NFIP. The plan presented herein provides for conversion of all remaining communities to the Regular Program by one of several means:

- . detail flood insurance study
- . limited detail flood insurance study
- . existing data study
- . special conversion (no study)

The Risk Studies Completion and Full Program Status Plan fulfills each of the recommendations made to FEMA by the General Accounting Office (GAO) in its report, "The Federal Emergency Management Agency Can Reduce Mapping Costs." The Plan is the outcome of a systematic assessment of unstudied Emergency Program and non-participating, floodprone communities which included the following actions:

1. estimated each community's future floodplain development,
2. ranked each community on the basis of its development potential,
3. weighed the community's future property-at-risk against the cost of developing flood risk information,
4. developed other mapping approaches for assessing flood risk, and
5. determined the appropriate means of providing flood risk data to each individual developing community.

Results of a demographic survey contracted by FEMA to project future floodplain growth indicate that over \$13 billion of development can be expected in the Nation's unstudied floodplains between 1984 and 1998. FEMA's economic analysis indicates that flood insurance studies and subsequent improved floodplain management would result in reducing flood damage in the unstudied floodplain by 12.8 cents for every dollar of projected development over the life of new floodplain structures. Therefore, additional flood studies can save the Nation approximately \$1.7 billion in flood damages for structures built during the next 15 years. These reductions compare very favorably with the \$68.1 million needed to fund the remaining cost-effective studies and special conversions.

Considering the numerous flood disasters which have recently occurred, (16 Presidential disaster declarations due to flooding from June 1983 to June 1984 the Nation needs a means, such as the flood study program, to provide the flood risk data necessary to properly guide new construction and reconstruction in the floodplains and avoid flood damages and devastating personal and economic losses.

The Risk Studies Completion and Full Program Status Plan is summarized in Figures 2 and 3. Figure 2 represents the cost-effective actions required to convert the remaining communities to the regular phase of the NFIP as determined by FEMA's analyses of projected growth and the benefit/cost of performing flood studies for each community. Figure 3 shows the funding levels required to accomplish these actions.

The Plan requires approximately \$112.3 million in Fiscal Years (FY) 1986 and 1987. Outyear needs are anticipated to be an average of approximately \$40.0 million per year during FY 1988 through FY 1990. These funding levels are comprised of: "pipeline" costs, e.g., funds required to complete studies and conversion actions begun prior to FY 1986; costs to initiate and complete the remaining 778 cost-effective studies and 3,720 special conversion actions; and maintenance costs to keep completed studies up to date.

The comprehensive analyses of the unstudied communities undertaken by FEMA during FY 1984 make this Plan significantly different from FEMA's previous plan, as shown in Figure 4. This Plan provides for 1,980 fewer new detail studies and 552 fewer other new studies than the previous plan. Further, the combined average new study cost is reduced from the previous plan as a result of FEMA's efforts to apply less-costly, less time-consuming methods of performing flood risk studies. The

result is an average savings of \$20,780 per study. In addition, this plan reflects FEMA's commitment to completing 3,720 special conversions by the end of FY 1987, an increase of 2,532 conversions over the previous plan. The total cost of completing the remaining flood insurance studies and special conversions under this Plan is \$68.1 million, as compared to \$232.7 million under the previous plan. Thus, the Plan represents a savings of \$164.6 million to the U.S. taxpayer.

Public Law 98-181 requires that FEMA's plan provide for achieving full program status for all communities by September 30, 1987. Two options have been developed for consideration by Congress regarding this time limit. Option 1 provides for initiating the same number of flood studies and special conversions as specified in Figure 2. However, the Emergency Program of the NFIP would terminate on September 30, 1987 and all Emergency Program communities would be converted to the Regular Program on or before that date. Those communities undergoing flood risk studies at that time would be converted to the Regular Program without the detailed risk data normally provided to Regular Program communities to support comprehensive floodplain management measures. Thus, this option would have numerous adverse impacts and its implementation would cost approximately \$2 million more than the second option. This additional cost would be necessary because a number of administrative actions would have to be repeated when flood risk studies are eventually completed for these communities.

Option 2 would also provide for the same number of flood studies and special conversions, all of which would be underway or completed by September 30, 1987. However, the Emergency Program would be extended to September 30, 1990. This would allow communities under study to be converted to the Regular Program through the usual process whereby the study is completed and the statutory consultation and appeal procedures precede the conversion. This option presents no significant adverse impacts and would result in fulfillment of the 1968 Congressional mandate to provide flood risk data to all communities containing flood risk zones as the basis for local floodplain management and actuarial flood insurance rates.

It is also important to note that adoption of Option 2 would extend the Emergency Program only for about 1,800 communities which would be in the study "pipeline" after FY 1987. Conversion to the Regular Program would occur prior to September 30, 1987 for the 5,697 other communities in this Plan.

In conclusion, FEMA recommends Option 2 of the Risk Studies Completion and Full Program Status Plan presented herein which would extend the Emergency Program to September 30 1990.

II. Introduction

On November 30, 1983, Congress enacted Public Law 98-181 which extended until September 30, 1985, the deadline for the Federal Emergency Management Agency (FEMA) to complete risk studies for all floodprone communities nationwide, as provided in the National Flood Insurance Act (NFIA) of 1968. In addition to extending the original 15-year studies completion deadline, this law required FEMA to submit to Congress, by September 30, 1984, its plan for bringing all floodprone communities into full program status by September 30, 1987.

This report is FEMA's response to the Congressional requirement contained in Section 451 of PL 98-181. It presents two options for consideration by Congress regarding completing flood insurance studies and achieving Regular Program status for all communities. The report first provides a background section on the history and subsequent development of the National Flood Insurance Program. Then an analyses section describes FEMA's efforts during the past year to target the number of communities remaining to be studied and to develop the most cost-effective approach to completing the initial flood insurance studies for floodprone communities. The next section describes the Risk Studies Completion and Full Program Status Plan, followed by a discussion of the effort which will be required in the period during the completion of the initial studies and beyond to maintain the integrity of the flood data developed by the Program. Documentation of such maintenance level activities is essential to provide Congress with a complete statement of the NFIP's current and future needs for flood risk studies and mapping. The final section of the report contains FEMA's recommendations.

III. Background

Establishment of the NFIP

Prior to the establishment of the NFIP in 1968, governmental efforts to reduce the rapidly escalating costs to the Nation due to flooding had centered on structural means, primarily levees, dams, and stream channelization projects such as those undertaken by the U.S. Army Corps of Engineers, Tennessee Valley Authority, and the Soil Conservation Service. When disasters occurred, the Congress responded by authorizing disaster assistance outlays directly to flood victims.

Continued escalation of flood losses caused the cost and effectiveness of these two approaches to come under scrutiny. In the mid-sixties, Congress began to examine the feasibility of non-structural alternatives including land-use management and building practices as means to further stem rising flood losses. Congress also considered flood insurance as a mechanism for transferring some of these costs to those who occupy floodplain areas. Thus, the National Flood Insurance Program, embodied in the National Flood Insurance Act of 1968, was created as a multi-faceted means of addressing this critical national problem. The program of Federal flood insurance conceived in the 1968 Act offered a means: to provide reliable assistance to flood victims; to reduce costs to the general public by ensuring that those property owners at risk would bear some of the cost of flood damage; and, to encourage floodprone communities to undertake non-structural floodplain management measures to reduce potential flood damages.

Congress recognized that the success of this program required that community participation be widespread, that studies be conducted to accurately assess the flood risk within each participating floodprone community and that insurance premium rates be established based on the risks involved and accepted actuarial principles. To meet these dual objectives of community participation and flood risk assessment, Section 1360(a) of the 1968 Act called for the Secretary of the Department of Housing and Urban Development (HUD), now the Director of FEMA, to "(1) identify and publish information with respect to all floodplain areas, including coastal areas located in the United States, which have special flood hazards, within five years following the enactment of the Act, and (2) establish flood-risk zones in all such areas, and make estimates with respect to the rates of probable flood-caused loss for the various flood-risk zones for each of these areas, within fifteen years following such date." At that time, however, program participation, including the availability of flood insurance coverage, was restricted to those communities for which a flood risk assessment study had been completed. Because detailed and time-consuming studies were required to develop risk data for each of the potential participant communities, it became clear that an interim means for more rapid community participation had to be provided.

1969 Act Established Emergency Program

The Housing and Urban Development Act of 1969 expanded participation by authorizing an "Emergency Program" under which insurance coverage could be provided at non-actuarial, federally-subsidized, rates in limited amounts during the

period prior to completion of a community's flood risk study. To participate in the Emergency Program, communities were required to adopt and enforce only minimal floodplain management standards.

The 1969 legislation thereby established a two-tiered program, recognizing that to provide full insurance coverage such as that available in the Regular Program, without the necessary risk data to support actuarial rating and local floodplain management efforts, would be contrary to the dual approach envisioned in the Act.

The Flood Disaster Protection Act of 1973

To increase community participation in the NFIP and to achieve other objectives, the Flood Disaster Protection Act of 1973 was enacted. This Act amended the 1968 Act by requiring the Secretary of HUD to formally notify all floodprone communities of their flood hazards to encourage program participation. This notification was accomplished through the publication of Flood Hazard Boundary Maps (FHBMs) based largely upon available data developed by other Federal agencies and approximate studies performed by private contractors. The FHBMs identify, on an approximate basis, the areas within a community subject to inundation by the one percent annual chance (100-year) flood but do not establish flood elevation-frequency relationships, floodways, coastal high-hazard zones, or other risk data for actuarial insurance rating and floodplain management purposes.

In addition, the 1973 Act required the acceleration of the flood insurance study program, and set forth specific "due process" requirements for government consultation with local community officials during the flood insurance study process. The Act also established the rights of a community and individual property owners to appeal study findings.

Description of a Flood Insurance Study (FIS)

Flood insurance studies (FISs) are performed either by private engineering firms under contract to FEMA, or government agencies, such as, the U.S. Army Corps of Engineers, U.S. Soil Conservation Service, Tennessee Valley Authority and the U.S. Geological Survey, under interagency agreements. The study begins with an initial community meeting where the study scope is established by considering areas which are developed or likely to develop within the near future. Detailed hydrologic and hydraulic analyses are then performed for each of these flooding sources. Once the study contractors' findings are complete, the results are reviewed for accuracy and uniformity and processed by technical evaluation contractors (private

engineering firms) operating under contract to FEMA. These firms review the study contractors' findings, review community appeals of the flood elevation determinations, and prepare the FIS report, Flood Insurance Rate Map (FIRM) and Flood Boundary Floodway Map (FBFM), if appropriate.

The cost of a full detail FIS depends on the number and size of flooding sources involved and the complexity of the factors influencing the flooding. The current average cost is approximately \$83,500.

The detailed study process takes approximately 45 months from the date it is initiated until the community actually enters the Regular Program. Figure 5 provides a time table of the process. About one-half of the time is associated with the various "due process" aspects of the Act including the appeals process and the community consultation and coordination procedures.

FISs serve many purposes, but two of them are primary. First, they establish the 100-year flood elevation levels and identify other critical data such as floodways, upon which local floodplain management programs are based; and second, they establish the risk information that is used in calculating actuarial flood insurance rates. During the course of a FIS, flood hazard areas are determined on the basis of historical records of rainfall, river flow and coastal storm surge levels. Information is obtained from records maintained by other Federal and state agencies and through consultation with the community. The geometric configuration of stream channels, shorelines and other floodplain areas is obtained by ground or aerial surveys. Hydrologic and hydraulic analyses are then performed using this data and the results are presented in report and map format. The FIS covers those areas that are subject to flooding from rivers and streams, along coastal areas and lake shores, or other floodprone areas.

The results of a FIS are issued to the community and other users in the form of a Flood Insurance Rate Map (FIRM) and, in most cases, a Flood Boundary Floodway Map (FBFM) and a narrative report. The FIRMs are used by lenders and insurance agents to determine flood insurance purchase requirements and insurance premium rates for specific properties, and by local officials for floodplain management purposes. The FBFMs are also used by communities for enacting and enforcing floodplain management regulations and ordinances and ensuring sound construction practices in flood hazard areas. Executive Order also requires Federal agencies to utilize this information to avoid Federal investment in floodprone areas through construction or assistance programs. Some additional uses of

flood insurance studies include: serving as a basis for decision-making regarding Federal flood control projects; providing support for State flood preparedness programs; providing support for flood warning activities; and providing basic data for use in other Federal, state and local water resources programs.

Achievements of the Flood Insurance Study Program

When the 1968 Act was passed the total number of floodprone communities was anticipated to be only 5,000; a figure which represented urban areas with populations greater than 10,000 having riverine flood hazards. Later studies have identified nearly 22,000 communities as floodprone. This increase in the number of floodprone communities has been the single most important reason for the increased time necessary to convert all communities to the Regular Program. From a historical standpoint, the flood study program has achieved much, given the increase in the known number of floodprone communities and the level of funding appropriated to initiate and complete all of the studies within the 15-year time period originally specified in the 1968 Act.

Prior to the passage of the Flood Disaster Protection Act of 1973, which required the acceleration of the flood study program, relatively few flood insurance studies were initiated. The largest numbers of studies were initiated in Fiscal Years 1974 through 1978. By the end of FY 1978, more than 8,200 flood studies and restudies had been initiated. In FY 1976 alone (including the transition quarter), over 2,300 studies were initiated using appropriations of \$93.6 million. Appropriations continued in the \$75 - \$85 million range through FY 1979. Funding in subsequent years declined and in FY 1985, appropriations were reduced to \$37.4 million.

Despite reduced appropriations and the enlarged scope of the task, FEMA has made significant progress both in the flood study program and in converting communities to the Regular phase of the NFIP. At the start of FY 1984, there were an estimated 22,000 floodprone communities for which more than 19,000 Flood Hazard Boundary Maps had been published. As of the same date, there were 17,542 communities participating in the NFIP with 9,716 in the Regular phase of the Program and 7,826 in the Emergency phase. Some 4,384 communities were non-participating. By the end of FY 1984 more than 11,400 communities will be participating in the Regular Program, which is more than double the number of communities estimated as flood-prone when the Program began in 1968. Approximately

8,000 of these will have detailed flood risk determinations. Figure 1 illustrates community participation status in the NFIP as of the start of FY 1984.

As early as 1976, FEMA recognized that some communities did not require a detail risk study. FEMA began utilizing a special conversion process for these communities. Approximately 3,400 communities will have been converted to Regular Program status by this process by the end of FY 1984. Also, FEMA has always utilized existing data in the flood insurance study process. The development of flood insurance studies based solely on existing data began in FY 1981 and by the end of FY 1984 some 540 studies will have been initiated through this process at considerable savings to the Program.

Benefits of Flood Insurance Studies

Flood insurance studies are the only accurate means to establish flood risk data for floodprone areas in a community. The high degree of credibility of the floodplain data provided by detail flood studies has been a major factor in both the willingness and the legal success of communities in enforcing floodplain management regulations. Base flood elevations and floodway data provided by FEMA's flood studies enable the community to establish specific elevation requirements for new construction and restrict floodway encroachment. The floodway is the channel of a river or other watercourse and the adjacent land area that must be reserved in order to prevent flood levels from being significantly increased and jeopardizing additional areas of the community.

The identification of the magnitude and frequency of flood hazards through a flood insurance study also facilitates establishment of actuarial insurance rates. Actuarial premiums are primarily based on a structure's elevation relative to the flooding depth and frequency relationship at the site. Individuals informed of the risk through floodplain maps and insurance rate classes are provided with economic incentive (lower insurance rates and reduced flood losses) to build structures above or away from flood hazard areas.

This plan presents a simple and quantitative benefit/cost analysis which was completed by FEMA to aid in planning the completion of the flood studies program. This analysis demonstrates that flood studies can reduce flood damage in the unstudied floodplain by 12.8 cents for each dollar of projected floodplain development over the expected life of that development. (This benefit/cost analysis is discussed in

greater detail in Section IV and Appendix C of this plan.) Relating this potential reduction to the \$13 billion in projected floodplain development in the unstudied floodplains over the next 15 years (see Section IV, Demographic Analysis) indicates that completion of the flood study program can reduce total expected flood damages by \$1.7 billion over the life of new construction taking place during the period 1984-1998 in the currently unstudied floodplains.

The simplified benefit/cost analysis presented in this plan is conservative in that it does not consider various other factors, far more complicated to predict and quantify, which further enhance the benefits to be gained through completion of the flood studies program. For example, the analysis assumes that, even with flood study data, development will continue to take place within the floodplain or floodway but would be built to meet only the minimum construction standards required for the community's participation in the NFIP. It does not consider development which would be entirely diverted from these hazardous areas and the corresponding elimination of all flood losses to such structures.

Furthermore, in the absence of a flood insurance study, floodplain development has historically encroached upon the floodway thereby increasing flood elevations and the risk of damage to structures in surrounding and upstream areas. Identification and regulation of the floodway can thus provide a tangible benefit in reducing future flood losses, but one which was not accounted for in the benefit/cost analysis due to difficulty in quantification.

The benefit/cost analysis also did not account for the benefits to be derived from a flood study and the attendant floodplain management actions governing redevelopment and substantial improvement of structures in the floodplain. Without a flood study to guide redevelopment in the aftermath of a disaster or to form the basis for constructing substantial improvements to structures, the financial investment in areas at risk would be increased and subject to a cycle of recurring loss and investment.

The benefit/cost analysis presented in this report also does not consider the productivity losses such as employment income, business revenues, and tax revenues which occur when commercial and industrial structures are flooded. These losses can be reduced if the flood hazards are known and commercial and industrial structures are built in consideration of that risk.

Finally, the benefit/cost analysis did not consider additional benefits directly to the Federal Government such as: reduced disaster aid expenditures; reduced casualty loss deductions on Federal income tax revenues; and, secondary usage of the flood study data by other Federal, State and local governments for such purposes as Federal flood control projects, supporting State flood preparedness programs and flood warning activities and disaster assistance programs. The major social benefits which are achieved as a result of flood insurance studies are: protection of lives and property; shifting of flood loss liability from the general taxpayer to the property owner; and, prevention of disruption of services.

Impacts of Discontinuing Flood Insurance Studies

The major impact of not studying a community is that valid data are not available to implement comprehensive local floodplain management actions. Sufficient information is unlikely to be available without a flood insurance study to guide future construction or substantial improvements away from flood hazard areas or to legally support locally adopted land use, building and zoning measures. Further, the use of State or local funds to generate flood risk data through other studies has been relatively rare.

A decision not to undertake any additional studies, which at a minimum would produce flood elevation information for both developed areas and those which will experience development, would have the effect of significantly undermining the program's mandates to provide adequate assessments of flood risk, and to encourage wise use of floodplains. These objectives contribute directly to the reduction in National flood losses, Federal subsidies, and in the personal hardship and suffering associated with those losses. Discontinuation of the study effort in the remaining targeted communities would have the following effects:

- . The NFIP's Congressional mandate would not be adequately addressed. The legislative history describes clearly the needs and objectives of the NFIP to provide a program for indemnification for loss of property from flood disasters, in return for the implementation of adequate local land use management to minimize future loss to life and property. Without adequate risk information upon which to base these programs there would be a direct conflict with the objectives of the program for those areas where floodplain development is likely to occur.

- . Existing and potential floodplain occupants would not be adequately informed of the magnitude or frequency of the hazard. If Flood Hazard Boundary Maps continue to be the only source of flood information in these communities, existing and potential floodplain occupants will have been provided only approximations of the lateral extent of inundation from the base flood. Information on flood depths, frequencies, elevations, velocities, coastal high hazard areas, location of floodways, risk zones and more accurate flood boundary determinations, all of which would normally be produced from a flood study, would not be provided to these communities.
- . Program experience has shown that without sound flood risk data, specific flood damage mitigation standards for new construction are rarely required by local governments. The NFIP's floodplain management standards are also incremental, becoming more specific as more detailed information is provided through the flood study process. If communities are converted to the Regular Program without the proper level of study, there would be no basis to require them to adopt more comprehensive standards than are currently required for the Emergency Program.
- . Without the identification and management of floodway areas, flood hazards may be increased by floodplain encroachment which restricts flood flows and thus causes higher future flood levels.
- . The program requirement that substantially damaged structures be built to elevation standards could not be uniformly applied in communities where elevation information has not been provided, thus potentially exposing a structure to repeated flood damage, repeated payouts from the National Flood Insurance Fund, and recurring repair costs.
- . Both National flood losses and Federal subsidies (flood insurance, disaster relief, casualty tax deductions and the installation of structural flood control projects) would increase. Numerous analyses of the effect of continued minimal floodplain management in the unstudied communities have been undertaken (see Appendix A for selected bibliography). However, these studies all point to the conclusion that curtailing the study effort, although saving expenditures in the short term, could ultimately result in a greater drain on the Federal treasury through the mechanisms described above. The humanitarian objective of preventing loss of life, personal property losses and hardship, which

cannot be easily quantified, would be hampered without risk data similar to that produced in the flood insurance studies.

FEMA has made a concerted effort through the analyses described in Section IV to determine, in a quantitative fashion, the number of remaining communities which warrant detailed risk data and the appropriate study methodology to be applied to each in order to maximize benefits and reduce the time and costs associated with the community study and conversion process. A major impetus to the analyses described below was provided by the General Accounting Office's review of the flood studies program and the subsequent report entitled "The Federal Emergency Management Agency Can Reduce Mapping Costs."

General Accounting Office (GAO) Findings

From October 1982 to April 1983, the GAO performed a review of the flood studies program. The review was conducted because the mapping deadline of August 1, 1983, established by Congress, was approaching and over 7,800 communities remained in the Emergency Program without a completed flood insurance study. The stated purpose of the GAO review was to determine whether options existed for transferring communities from the Emergency Program to the Regular program of the NFIP. Another objective of the review was to identify how FEMA could improve its decision-making for conducting flood studies.

In June 1983, GAO released its report which did not conclude that the unstudied communities should be transferred en masse from the Emergency Program to the Regular Program but recommended that FEMA develop a systematic approach to determine which type of mapping should be undertaken in the remaining communities, to include the following actions:

1. Rank unstudied communities on the basis of their development potential.
2. Incorporate other mapping approaches into the decision-making process.
3. Weigh the added floodplain management data provided by a detailed study against the study cost and the development potential of the community in question.

FEMA responded to the GAO report by agreeing that a more systematic approach for selecting mapping alternatives for the remaining unstudied communities was needed and that future flood insurance study decisions should be based on a community's anticipated floodplain development.

This objective may be contrasted to that during the early years of the flood study effort, when many high priority areas required study and the primary decisions involved prioritizing communities for study in any given year. Now, as the end of the initial study effort approaches, the critical decisions center on not only study priority, but also whether a study is necessary. Thus, FEMA recognized the need to implement GAO's recommendation to consider study benefits relative to study costs in determining whether a community warrants a study. The analyses described in the following section fully respond to GAO's recommendations.

IV. Analyses

FEMA conducted several major analyses of the remaining unstudied communities in order to obtain accurate data on future floodplain development and to develop a systematic approach for selecting mapping alternatives. First, a study was undertaken to evaluate the floodplain development potential in each of the remaining unstudied and selected non-participating communities and to rank them on the basis of projected property-at-risk. Second, the FEMA Regional Offices reviewed these communities and independently identified: those in need of a detail study; those which could be converted to the Regular Program without a study due to minimal or no flood hazards; and those which could be converted by utilizing flood risk data already available for the community. Third, FEMA entered into an interagency agreement with the U.S. Geological Survey (USGS) to identify communities which could be studied by less-costly, less time-consuming methods. Fourth, a benefit/cost analysis was performed to establish the number of communities which would support cost-effective studies of various types. These analyses, described below, comprise a thorough and systematic assessment of the remaining floodprone communities.

Demographic Survey

In order to obtain objective and quantitative data on the potential for floodplain growth in the remaining unstudied communities and to rank them on the basis of projected property-at-risk, FEMA contracted with Donnelley Marketing Information Services, a company of the Dunn and Bradstreet Corporation, which is a leading nationwide firm in small

area demography. The contract also required this firm to provide FEMA with a system for periodic review and updating of the rankings. The results of the study have enabled FEMA to evaluate each of the unstudied communities and determine if, based on the community's projected property-at-risk, a flood insurance study is warranted and to establish its priority. An abbreviated explanation of the demographic survey performed by Donnelley Marketing Information Services is given in this section. A complete description of survey methodology and results is contained in the final report, dated May 2, 1984.

The means by which Donnelley determined floodplain growth and ranked communities is summarized as follows. For each community/county included in the study, population, number of households and the value of these households (occupied residential property value in 1980 dollars) was determined using 1970 and 1980 Census data. The 1983 population and number and value of households for each community/county was determined utilizing Donnelley's proprietary data. Next, growth rates were computed and these values were used to project community development between 1984 and 1998. Community land area was determined from Census data, proprietary data, or from FEMA's own data base. The size of the special flood hazard area (SFHA - 100-year flood plain) was determined either by digitizing the FEMA Flood Hazard Boundary Map of the community or from data maintained by FEMA.

Property-at-risk in the SFHA was determined by proportioning estimated growth in the community by the ratio of the SFHA to the total area of the community. An adjustment factor was then applied to convert the value of occupied residential property to flood damageable or insurable property-at-risk including structures and contents.

Five ranking reports were then produced showing flood damageable property-at-risk in each community's SFHA. Four reports include existing plus future property-at-risk (national, state, community within state, and county rankings) and the fifth report ranks communities only on future property-at-risk (national).

The projected property-at-risk was evaluated in a total of 7,497 communities. The results of this evaluation indicate that a significant amount of existing development is already located in the unstudied floodplains and that more than \$13 billion of new development is expected to occur over the 15-year period 1984-1998. Of the 7,497 communities

included in this study, 3,712 communities demonstrated an increase in the projected value of property-at-risk through 1998. The estimated growth exceeded \$100 million in seven of these communities and \$25 million in 83 other communities. Projected future value of property-at-risk was negligible for 2,370 communities and declined for 1,415 communities.

The determinations of future property-at-risk developed under this contract provide the basic data for planning additional new studies and the achievement of Regular Program status for each of these communities. Several additional analyses of this basic data were performed, as described below, to develop the Risk Studies Completion and Full Program Status Plan.

Regional Screening

In September, 1983, the FEMA Regional Offices were asked to: 1) identify and prioritize, based on best available data, those communities needing a detail study; 2) identify communities for which the special conversion (no study) process can be conducted; and 3) identify candidates for existing data study (XDS). This assessment was necessary for two reasons. First, it enabled FEMA to determine the approximate number of unstudied communities which will require a flood insurance study and the number which can be converted to the Regular Program without a study. This allowed FEMA to effect over 1,000 special conversions to the Regular Program during FY 1984. Second, the Regional assessments served as a cross-check to verify that those communities identified as needing a study were included in the demographic survey.

After the demographic survey was completed in May, 1984, the Regions were requested to review the demographic rankings and the results of the benefit/cost analysis by applying their specialized knowledge of the communities to verify the accuracy of the findings. Also, the Regional review served as a quality control check on these analyses and provided valuable input for determining the necessary action for the individual communities.

Review by the United States Geological Survey

As a result of the FEMA Regional Office screening of the unstudied communities, which was performed before the demographic survey results were available, a listing of some 2,500 communities thought to be candidates for study was prepared.

In November 1983, FEMA entered into an interagency agreement with the USGS for the purpose of examining the hydrologic and hydraulic conditions in these 2,500 communities to determine where application of the less-comprehensive, less-costly and less time-consuming methodologies would be a practical alternative to the standard more detailed methodologies in use.

During July 1984, the USGS provided a preliminary report on the 2,500 communities it reviewed. The preliminary report indicated that as many as 1,600 of these communities could have some flood elevation data developed by limited detail study (LDS). The USGS reported that the other 900 communities either did not justify a study because of the limited flood hazards or required a more sophisticated methodology than that of the LDS because of the complexity of these hazards.

The preliminary report also identified by community the streams or stream reaches that can be studied, specified which of the alternative LDS methodologies was to be applied and provided an approximate estimate of the time and costs to do the work for each community. Preliminary estimates indicate that the community conversion would occur within 36 months of the initiation of an LDS study and that the average LDS study cost would be about \$27,300. The cost and time advantages of performing a limited detail study become very obvious when compared with a full detail study. The average cost of a detail study is \$83,000 and it takes about 45 months to complete. On the average, the limited detail study can be accomplished at a savings of about 70% in study costs and 20% in study time.

The limitations of the LDS approach are that 100-year flood elevations will be determined only for very limited areas within a community. Floodways, detailed risk zones and water surface profiles for other frequency floods would not be determined. The specific method(s) to be used would depend on factors such as the availability of historic flood data, the uniformity of floodplain characteristics and the suitability of applying regionalized flood depth-frequency analyses. It is recognized that the application of LDS methodologies will not be suitable in all situations, particularly for coastal floodplains or floodplains with complex hydrologic and hydraulic characteristics. However, there will be a number of communities that can be effectively studied by the LDS methodologies with little or no impact on flood data accuracy.

As part of this Risk Studies Completion and Pull Program Status Plan, FEMA intends to utilize the LDS study method for all communities where floodplain development potential warrants the establishment of some risk data but does not justify the cost of a full detail study. As will be shown in the following section, it is cost-effective to perform only 769 of the 1600 LDSs identified by the USGS. The first of these limited detail studies will be initiated during FY 1985 when the USGS, under an IAA with FEMA, will start limited detail studies in about 500 communities.

The procedures for processing a LDS will generally follow those of a standard FIS including initial and final community coordination meetings, a 90-day appeal period and a six-month period for communities to adopt the necessary floodplain management measures.

Benefit/Cost Analysis

General. The benefit/cost analysis upon which this plan is premised was begun with a search of the literature to learn what had already been published on this topic in order to build and improve upon what had been postulated in the past. Several previous attempts to quantify the monetary impact of the NFIP, each enjoying varying degrees of acceptability were noted (See Appendix A, Selected Bibliography of Benefit/Cost Analyses of the National Flood Insurance Program). With the exception of the economic analysis which led to the creation of the NFIP, the report by the Task Force on Federal Flood Control Policy published on August 10, 1966 as House Document No. 465, none enjoyed more than moderate success. As Brown and Lind noted in their report published in 1976 entitled An Economic Assessment of the Impact of the National Flood Insurance Program, the receptivity of any economic analysis of future benefits largely depends on the assumptions made in formulating the effects of "the unforeseen alternative." That is, in this specific analysis, while the impacts of a flood insurance study can be quantified after it is performed and adopted by a community as a vehicle for managing development of the floodplain, it is much more difficult to predict how that same floodplain would have been developed in the absence of a flood insurance study. Hence, the uncertainty of "the unforeseen alternative."

It is desired that the benefit/cost analysis of this report withstand the rigors of a close scrutiny of the assumptions of the "unforeseen alternative". An additional constraint was that the analysis be based on data that is readily attainable and accessible. Otherwise obtaining all the data

necessary to perform a thorough and complete analysis of the benefit/cost relationship for an individual community would likely cost as much as the community's flood insurance study itself. Lastly, the data should not be suspect because it is "soft" or because it is drawn from convoluted or esoteric generalizations. These limitations suggest that the data supporting the analysis must be based on simple relationships that are easily understood so as to give confidence in the results. Since the data produced by a flood insurance study and the economic impacts of the uses to which it will be put is far from a simple and direct cause and effect relationship, these constraints result in the underestimation of the true benefits of flood insurance studies, as discussed previously, but do permit a quantitative analysis.

Assessment of Benefits. Since the inception of the NFIP, the Federal Insurance Administration has maintained a data base on flood losses from which empirical relationships can be drawn. These include the average frequencies and depths of flooding as well as the average annual damages caused by various combinations of depths and frequency. Information extracted from this data base suggests that in the absence of a flood insurance study, and in an unmanaged floodplain, property owners experience losses corresponding to that expected for structures located at approximately the level of the 35-year flood. The 35-year flood event is the level of flooding that is statistically expected to occur once on the average every 35 years or with a 2.9 percent chance in any given year.

There are many requirements which a community in the Regular Program must fulfill in complying with the minimum standards for floodplain management to maintain its continued eligibility for Federal flood insurance coverage. Chief among these requirements is that all new or substantially improved properties to be sited in the 100-year floodplain be built to, or above the elevation of the 100-year flood. The 100-year flood is that event which has a one percent chance of being equalled or exceeded in any given year.

Knowing the depth-damage relationship for a structure and the depth-frequency relationship for floods at the site of the structure permits the calculation of expected average annual damages from flood events. The difference between the damages at the 35-year flood and the 100-year flood is the benefit attainable when new structures are elevated to the 100-year flood level as the result of the data provided by a completed flood insurance study. Very simply put, the analysis presented in Appendix C is based on the difference

between expected annual damages for the 35-year flood level and the 100-year flood level. As might be expected, separate depth-damage relationships exist for structures and their contents. Thus, there are separate benefits for structures and for contents which are considered in this analysis.

Some assumptions must be made to typify the kind of development expected to occur in the future. This analysis assumes that future floodplain development is best represented by a single family home built slab-on-grade with an expected life of 50 years. It also assumes that its value is \$60,000 (the average price of a new home in the United States, exclusive of land, in 1984 is \$66,000) and that it will contain \$20,000 in contents which will be located on the ground floor.

Based on these assumptions regarding the nature and siting of a "typical" floodplain structure, the average annual flood damage reductions for structures and contents can be computed using the Federal Insurance Administration's depth - damage relationships as described in Appendix C.

This computed average annual loss reduction of 0.256 cents per dollar of floodplain construction per year can be considered as the benefit from making flood insurance study data available to support local floodplain management measures which, at a minimum, require new construction to be elevated or flood-proofed to the 100-year flood level. Assuming a 50-year life of a structure, this annual benefit corresponds to 12.8 cents per dollar of floodplain construction over the life of the structure. Applying this figure to the \$13 billion of expected new development in the Nation's floodplains over the next 15 years suggests that if all such floodplains were studied, the potential reduction in nationwide flood losses would be \$1.7 billion.

Although the above analysis provides an estimate of the total potential future benefits from studying the remaining developing floodplains, standard economic analysis requires that future benefits be discounted to their present worth relative to the present study cost. A discount factor of 10 percent (recommended by the Office of Management and Budget) has been used for the discounting analysis discussed in Appendix C.

When the discounting analysis is performed over the assumed 50-year life of the structure, it is found that the present worth of benefits of a flood risk study is 2.54 cents for every dollar of floodplain development compared to a total future worth of 12.8 cents per dollar as previously discussed.

Thus, the present worth of the average annual damage reduction attainable from a flood risk study is about 2.5 cents for every dollar of future construction that would have been otherwise unwisely sited in the 100-year floodplain in the absence of the flood risk study.

Costs. The computation of the costs of flood risk studies is more directly obtainable from historic data maintained by the Federal Insurance Administration. Presently there are three types of new flood risk studies which have an assumed estimated average life of 15 years. These are: full detail study, limited detail study and existing data study which have associated costs of \$83,500, \$27,300 and \$21,300, respectively. These average study costs include estimates of all incidental costs such as those for review, cartographics, printing and distribution.

Benefit/Cost Ratio. Three components are brought together in determining the ratio of benefits to cost: the benefit of a flood risk study discounted over the life of a floodplain structure (i.e., 2.54 cents per dollar of future development); estimates of the future property-at-risk in the unstudied floodplains of individual communities for the 15 year period from 1984 to 1998 from the demographic survey; and, the average costs of the three different types of flood risk studies which have an assumed average life of 15 years.

The analysis is performed by examining the benefit/cost (B/C) relationship for each of the communities included in the demographic survey and assigning a study type which can be supported by a B/C ratio equal to or greater than one as follows:

$$\frac{\text{BENEFIT}}{\text{COST}} > 1, \text{ WHERE}$$

$$\text{BENEFIT} = \$0.0254 \times (\text{Future property-at-risk in dollars})$$

"Cost" is the average cost of a flood risk study. By utilizing the various values for the three types of studies, the minimum thresholds of future property-at-risk required to cause the benefit/cost relationship to be positive (equal or exceed one) can be calculated. The details of this computation are provided in Appendix C, and the results are summarized below.

Given the philosophy that certain minimum levels of future floodplain development are required before the costs of a certain type of study are justified, the decision-making can be systematized as follows:

<u>Decision</u>	<u>Future Property-at-Risk</u>
New Detail Study	If greater than \$3.29 million
Limited Detail Study	If between \$1.07 and \$3.29 million
Existing Data Study	If between \$839,000 and \$1.07 million
Special Conversion (No Study)	If less than \$839,000

The systematized decision-making procedure for determining which study type is the most cost-effective action permits tabulating the number of communities listed by the demographic survey with the various requisite levels of future property-at-risk values. This yields a count as follows:

<u>Study Type/Conversion Action</u>	<u>Number of Communities</u>
New Detail Study	820
Limited Detail Study	769
Existing Data Study	188
Special Conversion (No Study)	5,720
TOTAL	7,497

The number of these cost-effective studies and conversion actions to be initiated in FY 1986 and FY 1987 for which funds are not yet provided is determined by subtracting initiations planned for FY 1984 and FY 1985 from the total:

<u>Study Type/Conversion Action</u>	<u>Total No.</u>	<u>Initiated FY84-85</u>	<u>To Be Initiated FY86-87</u>
New Detail Study	820	339	481
Limited Detail Study	769	500	269
Existing Data Study	188	160	28
Special Conversion (No Study)	5,720	2,000	3,720
TOTAL	7,497	2,999	4,498

V. Risk Studies Completion and Full Program Status Plan
Description

As required by PL 98-181, FEMA has prepared a Plan to initiate the required flood risk studies and achieve full program status for all communities containing flood risk zones. As suggested by the General Accounting Office, the premise for all actions in the plan is an assessment of future floodplain development. FEMA has thoroughly and objectively projected floodplain development in the unstudied communities between 1984 and 1998 (See Section IV, Demographic Survey). This projection indicates that over \$13 billion of development can be expected in the Nation's unstudied floodplains by 1998. Communities have been ranked on the basis of their future property-at-risk and a benefit/cost formula has been applied to each community using estimates of potential reductions in property-at-risk and study costs. These actions assure that flood insurance studies will only be scheduled for those communities where the cost of a study will be supported or exceeded by the anticipated flood loss reduction benefits to the community. For communities with minimal floodplain development projected, where a study would not be cost effective, the special conversion procedure will be utilized, rather than a flood insurance study, to achieve full program status for the community.

As a result of these comprehensive analyses of the communities in the Emergency Program and selected non-participating communities, FEMA's present Plan for bringing them into the Regular Program differs significantly from the previous plan, as shown in Figure 4. Under the current Plan, 481 detail studies, 269 LDS's and 28 XDS's would be initiated during FY 1986 and 1987, resulting in 1,980 fewer new detail studies and 552 fewer other new studies (LDS and XDS) than previously anticipated. Efforts to apply less-costly, less time-consuming approaches for studying communities have reduced the average new study cost by \$20,780.

Further, the current Plan reflects FEMA's intent to complete all (5,720) special conversions by the end of FY 1987. This will require a major commitment of time and resources during this period since 2,532 more communities will be scheduled for special conversion under this Plan than under the previous plan. The costs of initiating the remaining flood insurance studies and special conversions under this Plan are compared with the costs of FEMA's previous plan in Figure 4. Under the current Plan these costs are \$68.1 million during the period FY 1986 through FY 1990. Under the previous plan, the cost would have been \$232.7 million. Thus, the systematic assessments performed result in a potential savings of \$164.6 million to the U.S. taxpayer.

This plan for initial studies completion and community conversion to the Regular Program of the NFIP has been developed with two options for consideration by the Congress. The difference between the two options presented below is the date of termination of the Emergency Program and its impact on the achievement of the goals established by Congress through the enactment of the National Flood Insurance Act of 1968, as amended. A description of the two options follows.

Option I

This option, would provide for the initiation by September 30, 1987 of all risk studies for communities where the discounted value of future flood damage reductions will be greater than the cost of the study. Funding levels of \$68.1 million to support initiation of 481 full detail studies, 267 limited detail studies, 28 existing data studies, and 3,720 special conversions would be required. All special conversions (communities where flood studies are not justified) will be completed by September 30, 1987, which is a major undertaking. Additional funding is also needed to support conversions to the Regular Program for communities with studies initiated before the start of FY 1984, (i.e. communities with studies in the "pipeline"). The usual process involves 45 months from study initiation to community conversion (See Figure 5). A third funding requirement is for maintenance activities for updating and revising FEMA's published flood hazard information (as described in Section VI of this report). This effort is currently ongoing, but would be given more emphasis beginning in FY 1988. By 1990, when all initial studies are completed, the maintenance program would be the primary function of FEMA's flood risk study component.

Under this option, the Emergency Program of the NFIP would terminate on September 30, 1987. Thus, all Emergency Program communities including those with studies initiated after the start of FY 1984 would be converted to the Regular Program by September 30, 1987 in order to be eligible to purchase Federal flood insurance. Later, when the studies of these communities are completed, the communities would be required to adopt the applicable floodplain management measures to maintain participation in the Regular Program.

While Option 1 is achievable, it has a number of significant disadvantages. The advantages and disadvantages of this option are discussed below.

Advantages:

- ° The additional flood insurance coverage provided under the Regular Program would become available for any insurable structure within any community participating in the NFIP.
- ° The Emergency Program would be terminated on September 30, 1987.

Disadvantages:

- ° The absence of effective floodplain management provisions in the early proposals to initiate a flood insurance program was seen as a major drawback to their adoption by Congress.
- ° The availability of higher limits of coverage under the Regular Program may encourage communities and individuals to develop floodprone areas, without applying mitigation techniques. Thus, converting developing communities to the Regular Program before establishment of the flood risk data could result in promoting unwise development, rather than minimizing flood losses. This was another major concern of Congress during the deliberation over the passage of the 1968 Act and earlier proposals for a flood insurance program.
- ° Providing additional amounts of flood insurance coverage to certain communities before providing risk data is unfair to those communities which were required to wait for the completion of their flood insurance study before enjoying the benefits of Regular Program participation.

- ° Providing additional amounts of coverage under the Regular Program may result in greater loss exposure to the NFIP. This exposure may be unfairly borne by other policy holders who have properly elevated their structures or by general taxpayer subsidies to the National Flood Insurance Fund. This is contrary to the original concept of the NFIP whereby the floodplain occupant bears more of the costs through proper construction techniques and paying appropriate actuarial rates.
- ° Implementation of 3,720 conversions by September 30, 1987 would have significant administrative costs and impacts on the agency as well as the communities involved. The major actions required would be: informing 1,800 communities of the action; providing necessary technical assistance to community officials; converting all Flood Hazard Boundary Maps to Flood Insurance Rate Maps and reissuing them; and informing insurance and lending concerns. These actions are estimated to cost approximately \$2 million and would have to be repeated when flood risk studies are eventually completed.

Option 2

This option is identical to Option 1 with regard to new study initiations, "pipeline" processing requirements, special conversions and maintenance activities. The difference is that the Emergency Program would terminate on September 30, 1990, rather than on September 30, 1987. This would allow about 1,800 communities under study to be converted to the Regular Program through the normal process, whereby the study is completed, risk data established and the statutory due process procedures precede the community's conversion to the Regular Program. The advantages and disadvantages for terminating the Emergency Program on September 30, 1990 are provided below.

Advantages:

- ° Allows the normal conversion process to occur without duplication of administrative efforts and costs thus saving approximately \$2 million.
- ° Regular Program amounts of flood insurance coverage will be made available to communities only upon the adoption of effective local floodplain management measures including the requirement to elevate new construction to the base flood level. This is in keeping with the goals of Congress in enacting the National Flood Insurance Act of 1968, as

amended. Full insurance benefits have been and will continue to be a major incentive to the adoption and enforcement of sound local floodplain management programs.

- ° Providing additional amounts of flood insurance coverage after completion of the flood insurance study and local adoption of the necessary floodplain management measures results in fair treatment of all communities and citizens for which flood insurance studies are conducted. No seriously floodprone community is provided the benefits of Regular Program participation without first undergoing completion of the study, the statutory consultation and appeal procedures and adopting the required elevation standards for new construction.
- ° Communities will be given the tools required to develop mitigation techniques for new construction. They will be required to utilize the flood risk data developed through the flood insurance study in the adoption of local floodplain regulations as a condition of participation in the Regular Program. Thus, mitigation techniques for construction will be implemented to protect against loss of life and property from flooding, thereby, facilitating Congress's goal for the Nation of reducing flood losses and Federal outlays for disaster relief.
- ° The floodplain occupant, rather than other policy holders or the general taxpayer, will bear a more appropriate share of the costs of constructing in a hazardous area. Such costs are incurred through the expense of improved construction techniques and actuarial premium rates for flood insurance coverage. Thus, the NFIP and the Federal treasury will be less subject to shouldering the burden for flood damage to improperly sited floodplain structures.

Disadvantages:

- ° The Emergency Program would have to be extended to September 30, 1990 to allow for the orderly transition of all communities to the Regular Program even though this affects only 1,800 communities. The other 5,697 communities of this Plan will have been converted to the Regular Program by the end of FY 1987.

- Additional limits of insurance coverage would not be available for communities under study during the extension period.

VI. Maintenance Level Program

Description

Since the early years of the NFIP, it has been necessary to perform restudies and to revise published flood maps to reflect changes in watershed or floodplain hydrologic or hydraulic conditions; incorporate advances in the state-of-the-art for flood risk assessment; correct errors identified in the original study; and to extend the areas of detail study to those unstudied portions of a community experiencing development pressure. This activity is consistent with the intent of Congress in creating the NFIP. Section 1302(e)(5) of the Act states that one of the purposes of the title is to "authorize continuing studies of flood hazards in order to provide for constant reappraisal of the flood insurance program and its effect on land use requirements" (Emphasis added).

Appropriations for flood studies and surveys have consistently included funds for restudy and map revision activities. Thus, the flood insurance study program has operated on two levels -- the first focusing on completion of the initial studies effort, and the second, maintaining the accuracy of the information produced. Because of the dual nature of the studies program and the greater priority given to completing the initial studies effort, from the inception of the NFIP through FY 1984, only some 18% of total appropriations, or about \$117 million have been allocated for maintenance purposes.

Therefore, once the initial studies effort is completed a maintenance level funding program tentatively estimated at \$36.3 million annually beginning in FY 1988 will be necessary to: 1) maintain the technical accuracy and usefulness of existing risk data for local floodplain management regulations, and 2) generate new risk data for areas previously unstudied where the development potential justifies the cost. Without such a maintenance level program, flood risk data would eventually become obsolete as hydrologic and hydraulic changes occurred within the watershed and floodplain or as new technology became available to improve the accuracy of risk determinations. Obsolete data may not provide a sound legal basis for local regulatory programs and thus the effectiveness of community floodplain management would deteriorate. Eventually, unwise building practices

in floodplain areas could increase and the investment in the establishment of the NFIP could be lost. Likewise, obsolete risk data could not be utilized to actuarially rate new construction, thus potentially resulting in an inequitable distribution of program costs among policy holders and possibly requiring additional taxpayer subsidies to maintain the National Flood Insurance Fund.

Flood risk data is revised and updated by four means:

1. flood insurance restudies
2. map revisions
3. Letters of Map Revision (LOMRs)
4. Letters of Map Amendment (LOMAs)

Each of the above frequently involves in-depth technical evaluations. In the case of restudies, FEMA contracts for the development of hydrologic and hydraulic analyses of several flooding sources within communities previously studied. Map revisions, LOMRs and LOMAs involve assessing technical data generated, funded and submitted by communities or appellants. Specifically, a map revision means the issuance of a revised Flood Insurance Rate Map (FIRM) and/or Flood Boundary Floodway Map (FBFM) to reflect changes in the community's flood risk. Usually only a portion of a flooding source is involved. A LOMR is a revision made effective by letter and followed later by a physical map revision. Lastly, a LOMA is the issuance of a letter which has the effect of removing a parcel or parcels of land from the designated special flood hazard area, and thereby removing the mandatory Federal flood insurance purchase requirement for structures located thereon. Although much of the data and analysis to support map revisions, LOMAs and LOMRs is funded and provided by appellants and communities, the incentive for them to do so primarily exists when risks are decreasing. FEMA has been primarily responsible for updating risk data when hazards are increasing through the restudy program.

The administration of the maintenance program will involve FEMA staff to establish policy, procedures and standards, administer study contracts, evaluate technical appeals and data received, coordinate with communities to obtain their input for the restudies and to advise them on the policies and procedures for revisions and appeals. Study contractors (Federal agencies or private engineering firms) are selected to perform the detailed analyses required in restudies. Technical evaluation contractors are utilized to evaluate data submitted by appellants and to prepare the appropriate form of map revision or map amendment, when the data submitted justifies a change to FEMA's map.

General Estimates of Maintenance Program Activities

Flood insurance studies are estimated to have an average life of 15-20 years. However, in rapidly growing communities, updates are required much more frequently. Thus, each year approximately 5% of all effective Flood Insurance Rate Maps (FIRMS) require the initiation of some action to reassess flood hazard areas and flood risk factors. Historically, approximately one-third of the required updates have been handled by complete restudies and two-thirds are processed through the less complex map revision procedure. An average of 1,100 requests for Letters of Map Amendment (LOMA) and Letters of Map Revision (LOMR) have been received annually.

The number of restudies and map revisions necessary in the future can be expected to increase as the number of communities entering the Regular phase of the NFIP increases and as the average age of the original study data increases. By the time the initial flood study program is complete, about 12,250 communities will be provided base flood elevation data. At that time, the number of restudies, map revisions and letters of map revision/amendment (LOMR/LOMA) necessary to develop new data and maintain the accuracy of existing flood risk data are estimated to be 230, 400 and 1,520 per year, respectively. This effort is tentatively estimated as requiring \$36.3 million annually. The reported costs include map reprinting and redistribution costs and include \$500,000 that would be required annually to fund special engineering studies needed for program development.

In FY 1985, FEMA will investigate ways of reducing the estimated funding level of the maintenance program and will perform an analysis of the projected development of all Regular Program communities. This analysis, similar to the one conducted by the demographic survey of the unstudied communities, will estimate future property-at-risk and rank the Regular Program communities on the basis of their expected future development. To aid FEMA in determining whether a restudy of the community is warranted, a benefit/cost approach will also be undertaken. FEMA will also explore cost-sharing mechanisms with state and local entities for restudies and will examine the feasibility of assessing fees for certain kinds of map revisions and letters of map revision/amendment. These analyses will facilitate FEMA's long-range planning for implementing the maintenance program, and determine much more precisely its cost to the general taxpayer.

In summary, the need for assessment of flood risks is an on-going one. This Nation is dynamic in its population movement, its watersheds, its floodplains and its technology. All these changes will generate a need for expanded new and revised flood hazard data which must be satisfied to maintain a viable NFIP.

VII. Recommendations

FEMA recommends the Risk Studies Completion and Full Program Status Plan described under Option 2 in Section V of this report. Through this Plan and associated funding levels as outlined at Figure 3, the Congressional mandate to provide flood risk data to all communities with significant flood hazards and loss potential will be accomplished by the end of FY 1990. The extensive analyses performed by FEMA assure that the communities selected for study are those where floodplain development is anticipated and where the benefit/cost ratio of conducting the study is positive. These studies will be initiated during FY 1986 and 1987 and completed before the end of FY 1990. Communities receiving studies will be required to utilize the flood risk data provided by FEMA to properly manage new construction in the floodplain. It is primarily through the economic incentive of reduced flood insurance premiums and through the provision of information on flood elevations and floodway data, developed in a flood insurance study, that effective floodplain management occurs. Adequate assessment of flood risks encourages wise use of floodplains which will result in reduction of total flood losses, Federal subsidies and the personal hardship and suffering associated with flood losses.

Under this option the Emergency Program would be extended until September 30, 1990, when all initial studies and the associated statutory due process requirements are completed. This would assure the preservation of the NFIP's basic tenet to provide insurance benefits in return for enforcement of local floodplain management measures.

In summary, the Risk Studies Completion and Full Program Status Plan presented herein is intended to form the basis for converting all floodprone communities to the Regular Program in a cost-effective manner and for maintaining the vitality of the NFIP through timely and objective methods for updating the existing flood insurance maps and studies. It is a realistic, objective and, at the same time, challenging plan for fulfilling the Congressional mandate to provide flood hazard information to all identified floodprone communities. FEMA is committed to applying staff and resources necessary to completing this plan. Through these intensive efforts, significant progress will be made in protecting lives and property from devastating floods and in reducing outlays for future flood damages.

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GLOSSARY OF TERMS

Base Flood - A base flood (100-year flood) is described as that flooding event which has one chance in 100 of being equaled or exceeded in any one-year period.

Base Flood Elevation (BFE) - The water-surface elevation of the base flood in feet above the National Geodetic Vertical Datum of 1929 at a specific point along a stream, river, or coastline.

Flood Boundary Floodway Map (FBFM) - The FBFM is a map issued to a community upon completion of a detail flood insurance study which depicts the limits of the 100-year floodplain and floodway in addition to detailed engineering data such as the location of cross sections and elevation reference marks. It is used by a community in conjunction with the FIRM in the enforcement and application of the community's floodplain management program.

Flood Hazard Boundary Map (FHBM) - The FHBM is issued to a community based upon the best available existing data or new approximate analyses. It identifies approximately the flood hazard areas in a community. The FHBM is used in the Emergency Program phase of the National Flood Insurance Program (NFIP) for flood insurance and floodplain management purposes.

Flood Insurance Rate Map (FIRM) - A FIRM is normally issued to a community following a Flood Insurance Study (FIS) and delineates 100-year and 500-year flood boundaries, base flood elevations and risk zones determined by a detailed engineering study. After the effective date of the FIRM, the community enforces comprehensive floodplain management ordinances which comply with the Regular Program requirements of the NFIP and actuarial rates for flood insurance are applied to new and substantially improved structures.

Floodway - FEMA requires the community to designate a part of the floodplain as a "regulatory floodway" to prevent future increases in the flood hazard. This floodway includes the channel of a river or stream and the adjacent floodplain that must be reserved to discharge the base flood without cumulatively increasing the water-surface elevation more than one foot at any point. Some state standards specify smaller allowable increases. Within the "regulatory floodway" a community must prohibit all actions which would increase flooding levels.

Special Flood Hazard Area (SFHA) - The SFHA is the floodplain within a community having a one-percent or greater chance of flooding in any given year.

Detailed Benefit/Cost Analysis Computations

General. It is desired that the quantification of the benefits of a flood risk study withstand the rigors of a close scrutiny of the assumptions of the "unforeseen alternative" (e.g., how development will be sited in a community in the absence of a flood risk study). An additional constraint was that the analysis be based on data that is readily attainable and accessible. Otherwise obtaining all the data necessary to perform a thorough and complete analysis of the benefit/cost relationship for an individual community would likely cost as much as the community's flood insurance study itself. At the same time, the analytic methods utilized should be at a level of sophistication and technical detail commensurate with the limitations imposed by the necessary assumptions and available data.

For these reasons, it was necessary to limit the quantification of benefits to those that could be presented in a straight forward manner and to make assumptions that simplify the mathematical computations. Thus the analysis is limited to the average annual flood damage reduction attainable when a flood risk study is completed and provides data to local officials whereby they can require that all new construction is built at least at the elevation of the 100-year flood.

A flood risk study also provides data which results in other benefits such as reduced disaster aid expenditures, reduced casualty loss deductions on income tax revenues and secondary usage of the flood study data by other Federal, state and local governments for other purposes. Floodplain management programs based on such data will also prevent productivity losses such as employment income, business revenues and tax revenues which occur when commercial and industrial structures are flooded. These additional benefits though, substantial were not considered in this analysis because their relationship to the flood risk study data is not as direct as the average annual flood damage reductions nor is it as easily established.

Similiarly, some assumptions were made to simplify the mathematical computations which discounted the future worth of the average annual flood damage reductions to their present worth so that a comparison could be made with the cost of the flood risk studies which produce these benefits. These simplifications are that study costs, study completions, community conversions to the Regular Program, implementation of floodplain management measures and floodplain development are assumed to occur in the first year of the analysis.

Assessment of Benefits. Since the inception of the NFIP, the Federal Insurance Administration has maintained a data base on flood losses from which empirical relationships can be drawn. These include the average frequencies and depths of flooding as well as the average annual damages caused by various combinations of depths and frequency. Information extracted from this data base suggests that in the absence of a flood insurance study, and in an unmanaged floodplain, property owners experience losses corresponding to that expected for structures located at approximately the level of the 35-year flood. The 35-year flood event is the level of flooding that is statistically expected to occur once on the average every 35 years or with a 2.9 percent chance in any given year.

There are many requirements which a community in the Regular program must fulfill in complying with the minimum standards for floodplain management to maintain its continued eligibility for Federal flood insurance coverage. Chief among these requirements is that all new or substantially improved properties to be sited in the 100-year floodplain be built to, or above the elevation of the 100-year flood. The 100-year flood is that event which has a one percent chance of being equalled or exceeded in any given year.

Knowing the depth-damage relationship for a structure and the depth-frequency relationship for floods at the site of the structure permits the calculation of expected average annual damages from flood events. The difference between the average annual damages at the 35-year flood and the 100-year flood is the benefit attainable when new structures are elevated to the 100-year flood level as the result of the data provided by a completed flood insurance study. The single benefit quantified by this analysis is visually portrayed by Figure 6. Very simply put, the analysis which follows is based on the difference between expected annual damages for the 35-year flood level and the 100-year flood level. As might be expected, separate depth-damage relationships exist for structures and their contents. Thus, there are separate benefits for structures and for contents which are considered in this analysis.

Some assumptions must be made to typify the kind of development expected to occur in the future. This analysis assumes that future floodplain development is best represented by a single family home built slab-on-grade with an expected life of 50 years. It also assumes that its value is \$60,000 (the average price of a new home in the United States, exclusive of land, in 1984 is \$66,000) and that it will contain \$20,000 in contents which will be located on the ground floor.

It is evident that the value of the structure relative to the value of the contents is three to one, a fact that will be used subsequently to compute the average annual damage reductions.

Based on these assumptions regarding the nature and siting of a "typical" floodplain structure, and the average annual depth damage frequency data maintained by the FIA, the average annual flood damage reductions for structures and contents can be computed as follows:

	Average Annual Damage (Cents per Dollar Value)	
	<u>35-Year Flood</u>	<u>100-Year Flood</u>
Structure	0.408	0.142
Contents	0.344	0.118
	Average Annual Damage Reduction (Cents per Dollar Value)	
Structure	0.408-0.142 =	0.266
Contents	0.344-0.118 =	0.226

To obtain a combined average, the average annual damage reduction for the structure and its contents must be weighted by the ratio of their respective value as follows:

$$\text{Combined Average Annual Damage Reduction} = \frac{3(0.266) + (0.226)}{3+1}$$

$$\text{Combined Average Annual Damage Reduction} = 0.256 \text{ cents per dollar per year}$$

This combined average annual loss reduction can be considered as the benefit from making flood insurance study data available to support local floodplain management measures which, at a minimum, require new construction to be elevated or flood proofed to the 100-year flood level. Assuming a 50-year life of a structure, this annual benefit corresponds to 12.8 cents per dollar of floodplain construction over the life of the structure. Applying this figure to the \$13 billion of expected new development in the Nation's floodplains over the next 15 years suggests that if all such floodplains were studied, the potential reduction in nationwide flood losses would have a future (undiscounted) worth of \$1.7 billion.

Although the above value of 12.8 cents per dollar of floodplain development provides an estimate of the total future worth of the benefit of studying the remaining developing floodplains, standard economic analysis requires that future benefits be discounted to their present worth so as to provide a basis for comparison between the benefits and the costs of obtaining the benefits. A discount factor of 10 percent as specified by OMB circular A-94 is used in the analysis described below.

The present worth of benefits occurring in future years is the sum of the discounted benefit in each year from the present year to the furthest year in which benefits accrue. The present worth (PW) of any future year benefit is computed as follows:

$$PW = \frac{\text{Benefit}}{(1 + \text{Discount Factor})^i}$$

Since the discount factor is 10 percent and i = the number of years into the future that the benefit is being considered. This equation may be rewritten as:

$$PW = \frac{\text{Benefit}}{(1.10)^i}$$

Thus the total present worth (TPW) of all future benefits due to average annual flood damage reductions over a 50-year structure life is equal to:

$$TPW = \sum_{i=1}^{50} \frac{\text{Benefit}}{(1.10)^i}$$

$$TPW = \sum_{i=1}^{50} \frac{\text{Combined Average Annual Damage Reduction}}{(1.10)^i}$$

Where:

i = 1 to 50, the number of years of benefit which equals the life of the structures built in the floodplain

Since the Combined Average Annual Damage Reduction was previously determined to be 0.256 cents per dollar per year, the above expression can be worked out as follows:

$$TPW = \sum_{i=1}^{50} \frac{0.256}{(1.1)^i}$$

$$TPW = \frac{0.256}{1.1^1} + \frac{0.256}{1.1^2} + \frac{0.256}{1.1^3} + \dots + \frac{0.256}{1.1^{50}}$$

$$TPW = 2.54 \text{ cents per dollar}$$

Thus the total present worth of the single benefit quantified by this analysis is 2.54 cents per dollar of future construction that would have been unwisely sited in the floodplain in the absence of a flood risk study. This benefit is compared with the cost of flood risk studies and the level of development expected to occur in each of the unstudied floodplains to determine the number of communities that warrant a flood risk study and which of three types of study should be performed. It is considered cost effective to study a community when the benefits of doing the study exceeds its costs as described below.

Costs. The computation of the costs of flood risk studies is obtainable from historic data maintained by the Federal Insurance Administration. Presently there are three types of new flood risk studies which have an assumed estimated average life of 15 years. These are: full detail study, limited detail study and existing data study which have associated costs of \$83,500, \$27,300 and \$21,300, respectively. These average study costs include estimates of all incidental costs such as those for review, cartographics, printing and distribution.

Benefit/Cost Ratio. Three components are brought together in determining the ratio of benefits to cost: The benefit of a flood risk study discounted over the life of a floodplain structure (i.e., 2.54 cents per dollar of future development); estimates of the future property-at-risk in the unstudied floodplains of individual communities for the 15 year period from 1984 to 1998 from the demographic survey; and, the average costs of the three different types of flood risk studies which have an assumed average life of 15 years.

The analysis is performed by examining the benefit/cost (B/C) relationship for each of the communities included in the demographic survey and assigning a study type which can be supported by a B/C ratio equal to or greater than one as follows:

Benefit > 1, Where:
Cost

Benefit = \$0.0254 x (Future property-at-risk in dollars)

SUBSTITUTING BACK INTO THE FIRST EXPRESSION YIELDS

\$0.0254 (Future property-at-risk) > 1
Cost

REARRANGING TERMS YIELDS

Cost < Future property-at-risk
\$0.0254

"Cost" is the average cost of a flood risk study. By substituting the various values for the three types of studies, the minimum thresholds of future property-at-risk required to cause the benefit/cost relationship to be positive (equal or exceed one) can be calculated.

For Full Detail Studies:

\$83,500 < Future property-at-risk
\$0.0254

Thus, future property-at-risk must exceed \$3.29 million to support a full detail study.

For Limited Detail Studies:

\$27,300 < Future property-at-risk
\$0.0254

Thus, future property-at-risk must exceed \$1.07 million to support a limited detail study.

For Existing Data Studies:

\$21,300 < Future property-at-risk
\$0.0254

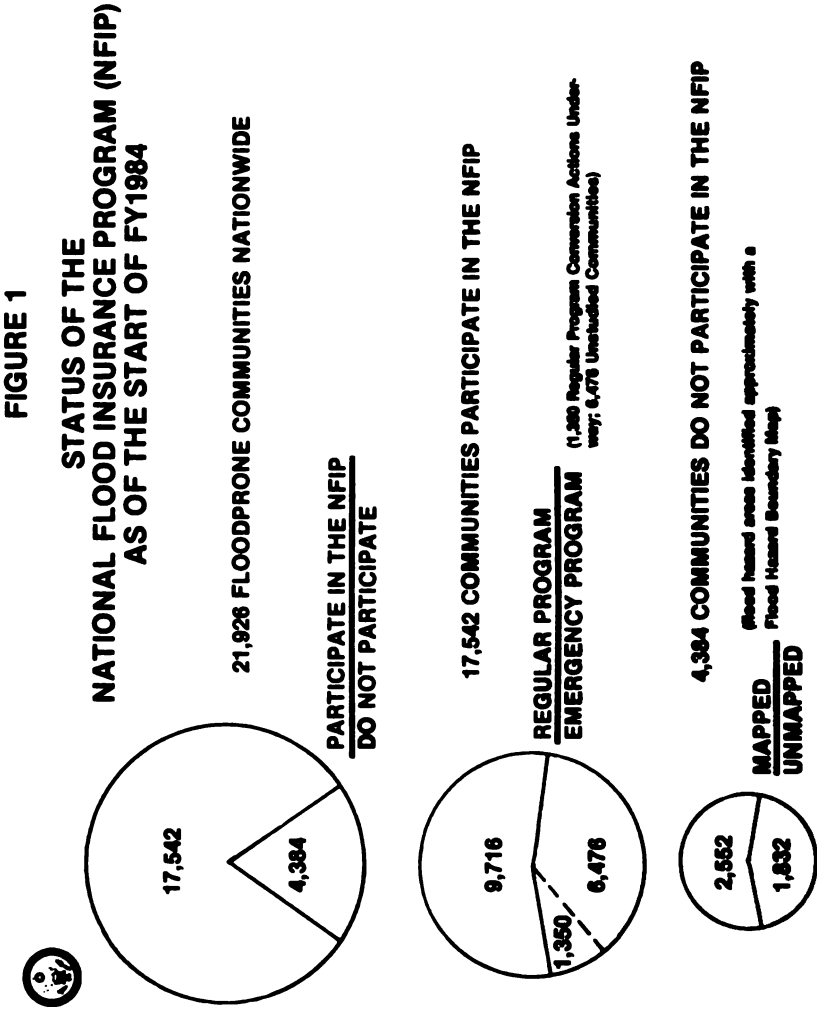
Thus, future property-at-risk must exceed \$839,000 to support an existing data study.

Given these relationships and the philosophy that certain minimum levels of future floodplain development are required before the costs of a certain type of study are justified, the decision-making can be systematized as follows:

DecisionFuture Property-at-risk

New Detail Study	If greater than \$3.29 million
Limited Detail Study	If between \$1.07 and \$3.29 million
Existing Data Study	If between \$839,000 and \$1.07 million
Special Conversion (No Study)	If less than \$839,000

The systematized decision-making procedure for determining which study type is the most cost-effective action was used to establish the number of communities to be studied by the various study types, or specially converted, as described in Section IV of this Plan.



2



FIGURE 2
BENEFIT/COST ANALYSIS RESULTS

2

<u>STUDY TYPE/ CONVERSION ACTION</u>	<u>TOTAL NO.</u>	<u>NO. FUNDED FY 84-85</u>	<u>NO. TO BE FUNDED FY 86-90</u>
New Detail Study	820	339	481
Limited Detail Study	799	500	299
Existing Data Study	188	160	28
Special Conversions	5,720	2,000	3,720
TOTAL	7,467	2,999	4,468

3259



FIGURE 3

**STUDIES COMPLETION PLAN
FUNDING LEVELS
(THOUSANDS OF DOLLARS)**

	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986-87</u>	<u>FY 1988-90</u>
<u>"PIPELINE" COSTS</u>				
FUNDS REQUIRED TO COMPLETE STUDIES AND CONVERSION ACTIONS BEGUN PRIOR TO FY 1985			\$25,785	\$ 1,590
<u>STUDIES COMPLETION COSTS (FY 86-90)</u>				
FUNDS REQUIRED TO INITIATE AND COMPLETE THE REMAINING 4,498 COST- EFFECTIVE STUDIES AND CONVERSION ACTIONS			\$48,961	\$ 18,143
<u>MAINTENANCE COSTS (FY 86-90)</u>				
FUNDS REQUIRED TO KEEP COMPLETED STUDIES UP TO DATE BY INITIATING RESTUDIES, MAP REVI- SIONS AND LETTERS OF MAP REVISION/AMMEND- MENT			\$37,557	\$ 98,377
<u>TOTAL COSTS</u>	<u>\$48,752</u>	<u>\$37,352</u>	<u>\$112,303</u>	<u>\$120,119</u>

NOTE:

Costs reported for FY 1985 through FY 1990 are tentative estimates subject to change when budget requests are prepared.



FIGURE 4
COMPARISON OF THIS STUDIES COMPLETION PLAN
WITH THE OLD PLAN TO SHOW COST SAVINGS

STUDY TYPE OR CONVERSION ACTION (FY 1986-90)	NO. PROPOSED BY		COST (\$1000)		SAVINGS (\$1000)
	Old Plan	This Plan	Old Plan	This Plan	
New Detail Study	2,481	481	\$205,494	\$40,164	\$165,330
Limited Detail Study	0	289	0	7,344	(7,344)
Existing Data Study	849	28	18,084	596	17,488
Special Conversions	1,188	3,720	5,108	15,996	(10,888)
SUB TOTAL	4,498	4,496	\$228,688	\$64,100	\$164,588
PROGRAM SUPPORT			\$4,000	\$4,000	\$ 0
TOTAL			\$232,688	\$68,100	\$164,588

WORK YEARS (FTE)					
(HQS + REGIONS)	121	61.3	\$ 4,450	\$ 2,254	\$ 2,196 (59.7 FTE)

THE ABOVE COMPARISON DOES NOT INCLUDE AN ESTIMATED SAVINGS OF \$28,100,000 THAT WAS REALIZED IN FY 1985 BY INITIATING LESS COSTLY, LESS TIME CONSUMING (LIMITED DETAIL) STUDIES FOR 500 COMMUNITIES



FIGURE 5
TYPICAL COMMUNITY CONVERSION FROM A DETAIL STUDY

TIME LINE		
Event	Time Required to Complete Event (months)	Cumulative Elapsed Time (months)
Detail Study Initiated	0	0
Study Contractor (SC) prepares draft Flood Insurance Study (FIS) and submits it for technical review.	20	20
Prior to submission, the SC conducts a reconnaissance and bibliographic search; performs land and aerial surveys; performs hydrologic and hydraulic analyses; prepares work maps for the Flood Insurance Rate Maps (FIRM) and Flood Boundary Floodway Maps (FBFM) to show extent of flooding from sources studied in detail and the delineation of approximate study flood boundaries; and, drafts a narrative of the FIS report.		
A Technical Evaluation Contractor (TEC) reviews SC hydrologic and hydraulic analyses; checks for match with contiguous communities; translates SC work products to standard formats for narrative and graphic presentation; and, prepares a preliminary FIS and transmits it to a FEMA Regional Office for review by the community.	N/A	N/A
	8	28

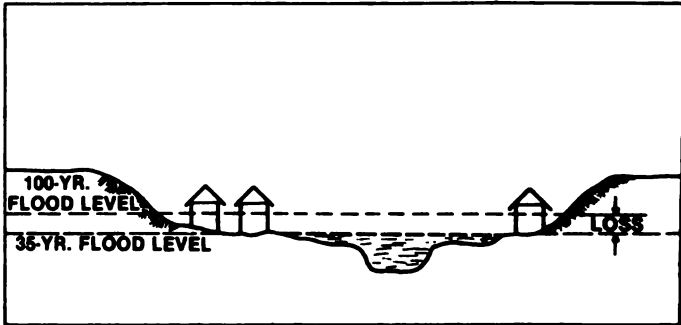


<u>Event</u>	<u>Time Required to Complete Event (months)</u>	<u>Cumulative Elapsed Time (months)</u>
2 From the date the preliminary FIS is sent to FEMA Regional Office, for scheduling and conduct of final community consultation meeting, to date of this meeting.	3	31
From date of final community consultation meeting to start of legally-mandated 90-day appeals period.	2	33
From start of 90-day appeals period to start of the 6 months compliance period (most appeals of proposed elevation determinations are resolved by TEC during this period).	6	39
Start of 6 months compliance period to the effective date of the FIS (this period is provided by regulation to give the community time to adopt the required flood plain management ordinances). Many communities have laws which require ordinances to be read as many as three times prior to adoption.	6	45
Community Conversion	N/A	45

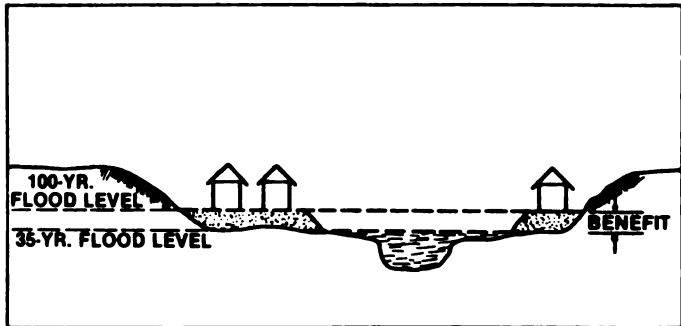
FIGURE 6



QUANTIFIABLE BENEFIT OF A FLOOD INSURANCE STUDY



**FIGURE 1—ASSUMPTION OF BENEFIT/COST ANALYSIS—
ALL UNREGULATED DEVELOPMENT, BUILT TO 35-YEAR
FLOOD LEVEL.**



**FIGURE 2—BENEFIT OF A FLOOD INSURANCE STUDY—
FLOOD LOSS REDUCTIONS ACHIEVABLE BY BUILDING
AT 100-YEAR FLOOD LEVEL.**



CITY OF BUENA PARK

OFFICE OF THE MAYOR

March 6, 1985

Congressman Henry Gonzales
U.S. House of Representatives
LHOB 2413
Washington, D.C. 20515

In my capacity as the Chairman of the City of Buena Park's Redevelopment Agency and as Mayor of the City, I am concerned over the 1986 Budget Deficit Reduction Proposal. Your continued Federal support for Housing and Community Development efforts, specifically the new HUD administered Rental Housing Rehabilitation Program is petitioned.

A great deal of time, money, and effort has been expended by HUD and the Nation's Housing and Redevelopment Community to launch the new Rental Rehab Program. To discontinue Federal support would be to waste this Nationwide effort without experiencing the full benefits that the program was intended to yield. As with all community development efforts, the Rental Rehabilitation Program creates new private sector job opportunities while enhancing the local urban economy. The program provides new and improved living conditions for low and middle class citizens that otherwise would be unable to afford decent housing. The program will uplift, restore, and in general beautify our Nation's urban communities.

I, therefore, request your strong support of the Rental Housing Rehabilitation Program as well as other community development programs that have done so much for our Nation.

Respectfully submitted,


Mayor James Jarrell

JJ:aw



**CITY OF CORNING
NEW YORK**

ROSE M. STRANGES
CITY CLERK

OFFICE OF THE CITY CLERK
CORNING, NEW YORK 14830

(607) 936-9111

March 12, 1985

Chairman, House Housing & Urban
Development Comm.
Fernando StGermain
2108 Rayburn House Office Bldg.
Washington, D.C. 20515

Dear Mr. StGermain:

On March 4, 1985, the Common Council of the City of Corning, State of New York, passed the following resolution:

BY ALDERMAN JOHN MARMUSCAK

RESOLVED: WHEREAS, one of the basic functions of government is the assistance of people who cannot assist themselves, and
WHEREAS, it is only with Federal assistance that local governments provide housing for low-income people and at the same time, encourage development that provides the jobs for people, and
WHEREAS, proposals have been made at the Federal level which would seriously curtail activities in housing and community development fields of endeavor.
NOW, THEREFORE BE IT RESOLVED, that the Common Council of the City of Corning herewith and hereby acknowledges the contributions of the Federal low-income housing program and the Federal community development program to the health and well-being of this community, and
FURTHER RESOLVES, to petition the Congress via this resolution, to continue these programs for the benefit of the citizens of New York State.

SECONDED BY ALDERMAN FRANCIS FRAWLEY

As City Clerk of the City of Corning, State of New York, I remain;

Very truly yours,

Rose M. Stranges
Rose M. Stranges
City Clerk

RMS/mp

cc: Robert Dole
Robert Packwood
Jack Garn
Senator D'Amato
Senator Moynihan
David Stockman
Samuel Pierce
Stanley Lundine
Robert Michel
Dan Rostenkowski
Congressman Samuel Stratton

3267



CITY OF FLORESVILLE
Post Office Box 845, Floresville, Texas 78114

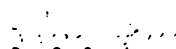
March 1, 1985

Honorable Henry B. Gonzales
2413 Rayburn House Bldg
Washington, D.C. 20515

Sir,

Please find enclosed a resolution concerning the officials, of the City of Floresville, position on the proposed cuts in Federal Aid to Texas Cities. Your assistance in preserving these programs will be greatly appreciated.

Sincerely,


Roy G. Sanchez
Mayor

A RESOLUTION

WHEREAS, the federal Office of Management and Budget is proposing severe cuts or total elimination of programs and agencies important to local governments; and

WHEREAS, these programs and agencies, including Community Development Block Grants (CDBG), Urban Development Action Grants (UDAG), assisted housing programs, wastewater treatment grants, low-income energy assistance and weatherization and others, have provided much-needed assistance to local governments in the vital areas of housing, community infrastructure and economic development;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF FLORESVILLE that these programs and agencies are crucial to local efforts to maintain and improve the quality of life for all citizens;

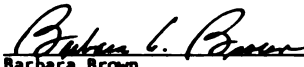
AND BE IT FURTHER RESOLVED that our concern over the continuing viability of these important urban programs and agencies be communicated to our elected representatives in Washington, D.C.; and that we work together with other local governments within the region to make known our concern in this vital area.

RESOLVED, THIS THE 28th DAY OF February, 1985.

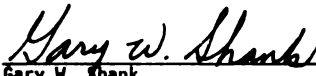


Roy G. Sanchez
Mayor

ATTEST:



Barbara Brown
City Secretary



Gary W. Shank
City Attorney

3269



GREENVILLE HOUSING AUTHORITY

P O BOX 1049
714-455-4902 2880
GREENVILLE, TEXAS 75401

March 8, 1985

The Honorable Henry B. Gonzales
House of Representatives
Rayburn House Office Building
Room 2413
Washington, D.C. 20510

Dear Mr. Gonzales:

The Greenville Housing Authority Board would like to express its grave concern with the current Administration's budget proposals, as they pertain to assisted housing and community development.

Assisted housing programs have been subjected to a sixty eight percent (68%) reduction from fiscal year 1981 to 1985. In comparison to other domestic programs, assisted housing programs have given their "fair share" in prior budgets.

The enclosed Resolution was passed by the Greenville Housing Authority Board and contains many important statements concerning the City of Greenville. Three (3) are major concerns of the Housing Authority Board. These are the continued funding of the Section 8 Existing Rental Assistance Program, the method of calculation for the administration fee of the Section 8 Program and the contract term for the Section 8 Program.

The proposed moratorium on funding of the Section 8 Existing Program, in fiscal years 1986 and 1987, will eliminate possible assistance for 2,200 Greenville, Texas residents, identified as living below the poverty level, (Source: 1980 Census, Person below 75% of poverty level), and will not allow assistance for the one hundred (100) qualified residents on the Housing Authority's waiting list at the present time.

The current level of funding versus the area's need can be easily verified through the Ft. Worth Regional Office of the U.S. Department of Housing and Urban Development. The Regional office is currently evaluating proposals for what limited funds are available and would have very current numbers of families in need of assistance.

The Greenville Housing Authority also protests a reduction



in allowable administrative revenue for the operation of the Section 8 Existing Program. No regulation change or proposed regulation change has lessened the administrative demands on a Housing Authority. Present funding levels have allowed the Greenville Housing Authority, under management and financial reviews conducted by HUD, to meet all contract requirements. Less administrative money will not create more efficient administration of the program and could generate understaffing due to lack of funds.

Finally, the funding of the Annual Contributions Contracts for five year terms instead of the allowable fifteen (15) creates unnecessary and restrictive limitations on the Greenville Housing Authority.

The program, as endorsed by Congress, is providing decent and safe housing to very low income families. The cooperative efforts between the Housing Authority, tenant and property owner have stabilized housing conditions in Greenville. There is no reason, other than to allow the Program to become a political football, to restrict funding contracts to five (5) year terms.

In summary, the Greenville Housing Authority strongly urges and supports the funding of 50,000 Certificates for the Section 8 Existing Program in fiscal year 1986. The Greenville Housing Authority also advocates the calculation of administrative fees under the present method and contractual commitments by HUD for fifteen (15) years under the Section 8 Existing Annual Contributions Contract.

As stated previously, the enclosed Resolution has been adopted by the Greenville Housing Authority and represents the statement of their position on the many issues as they relate to assisted housing program and community development.

Sincerely,



John Price
Chairman
Greenville Housing Authority Board

mh

R E S O L U T I O N

WHEREAS, it has been determined that it is in the public interest that the clearance, replanning and reconstruction of the areas in which insanitary or unsafe housing conditions be undertaken and the providing of safe and sanitary dwelling accomodations for persons of low income are public uses and purposed for which public money may be spent; and

WHEREAS, the Greenville Housing Authority is a duly authorized public body corporate and politic of the City of Greenville, Texas; and

WHEREAS, the Greenville Housing Authority is opposed to:

- The proposed two year moratorium on assisted housing funds for Section 8 Existing and Moderate Rehabilitation Housing Programs.
- The proposed reduction by 10% of Public Housing Administrative fees and elimination of Fair Market Rent increases for one year.
- The funding of additional Voucher-Certificates until full evaluation of the Demonstration Program is completed.
- The proposed reduction of Community Development Block Grant Program funding to \$3.1 billion.
- The proposed elimination of general revenue sharing.
- The proposed elimination of funding of financial assistance programs of the Small Business Administration.
- The proposed elimination of Farmers Home Administration Rural Housing Program.
- The proposed elimination of funding for the Urban Development Action Grant Program.
- The proposed elimination of funding for the Rental Rehabilitation Grant Program for two years.
- Proposed reduction of public housing operating subsidies to \$1 billion for FY 1986.
- Proposed reduction of Comprehensive Improvement Assistance Program to allow only emergency modernization of \$175 million.
- The sale of existing public housing stock to residents without benefit of a one for one unit replacement to the existing stock.
- The continuing efforts by HUD to recapture prior-year funds that were correctly obtained and effectively spent through HUD approved Budgets, and

WHEREAS, the Greenville Housing Authority specifically recommends the following active consideration by Congress and the Administration:

- The funding of Section 8 Existing and Moderate Rehabilitation Programs to support 50,000 certificates for FY 1986.
- The continuing funding of the administration fee for the Section 8 Program at the current level and method.
- The continued annual review and, if necessary, increase in Fair Market Rents for Section 8 Program.
- The funding of the Community Block Development Grant Program at 4.262 billion for FY 1986.
- The continued funding of general revenue sharing at FY 1985 level.
- The continued funding of financial assistance programs for the Small Business Administration.
- The continued funding of the Farmer's Home Administration Rural Housing Programs and non-consolidation of rural housing programs under HUD.
- The continued funding of the Rental Rehabilitation Program at a level of \$300 million for FY 1986 and FY 1987.
- The funding of public housing operating subsidies at a level of \$1.423 billion for FY 1986.
- The funding of the Comprehensive Improvement Assistance Program at \$2 billion and establishment of a project replacement reserve system based on capital needs.
- Supportive in concept of providing home ownership opportunities for low income families, but opposed to the removal of units without one to one replacement, program implementation without a reserve fund or other mechanism for maintenance expenses and Housing Authority control over determination of units offered for sale.
- The establishment of minimum rents for residents of public housing.
- The establishment of a maximum rent tied to existing Fair Market Rents to allow development of a broad rent range of residents by PHA
- Establishment of an independent review agency to determine the effects and evaluate the Voucher-Demonstration Program; and

WHEREAS, the Greenville Housing Authority strongly supports the following specific points of HR 1 "Housing Act of 1985";

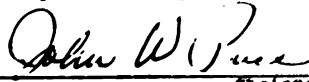
- All references and recommendations for the establishment of a Task Force on Housing Needs.
- All direction to HUD in reference to the Voucher-Demonstration Program.
- That portion of the Act concerning performance standards for PHA's and compliance certification.
- Provisions for emergency shelter and food distribution programs including provisions for a Demonstration Program to evaluate the effectiveness of non-profit organizations in providing housing and supportive services for homeless people.
- The Commitment of HUD for fifteen years Annual Contribution Contracts for the Section 8 Existing Program.
- The prohibition of recapturing by HUD of PHA revenues from investment income.
- All references to the continuation of Farmer's Home Administration Rural Housing Programs.

NOW, THEREFORE, BE IT RESOLVED BY THE GREENVILLE HOUSING AUTHORITY THAT:

SECTION 1: The Greenville Housing Authority adopts this resolution and strongly recommends that the City Council of Greenville, Texas also adopt the resolution.

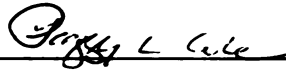
SECTION 2: A copy of this resolution shall be forwarded to the City Council of Greenville, Texas, each United States Congressman and United States Senator who represents the citizens of Greenville.

PASSED AND APPROVED THIS THE 27th day of February, 1985.



 Chairman
 Greenville Housing Authority Board

ATTEST:



 Secretary

3274

WILLIAM P. TYLER
TOWN CLERK
COMMISSIONER OF LICENSES
REGISTER OF VITAL STATISTICS

TOWN OF ISLIP



SUFFOLK COUNTY, N. Y.
TOWN HALL, ISLIP 11751
224-5460

EILEEN KNECHT
Deputy Town Clerk

March 6, 1985

Enclosed herewith is copy of resolution adopted by the Town Board of the Town of Islip on March 5, 1985 acknowledging the contributions of the Federal Low-Income Housing Program and the Federal Community Development Program to the well being of this community.

We urge your support to the Town of Islip petitions to continue these programs for the benefit of the citizens of the Town of Islip.

William P. Tyler

William P. Tyler, Town Clerk

TOWN OF ISLIP
WILLIAM P. TYLER, Town Clerk
TOWN HALL
ISLIP, N. Y. 11751



Honorable Fernando St. Germain
Chairman Housing & Urban Development Committee
House Office Building
Washington, DC 20515

March 5, 1985

WHEREAS, one of the basic functions of government is the assistance of people who cannot assist themselves, and

WHEREAS, government is at its best when it is able to regenerate the community which it governs, and

WHEREAS, it is only with federal assistance that local governments provide housing for low-income people and at the same time, encourage development that will provide jobs for people, and

WHEREAS, proposals have been made at the federal level which would seriously curtail activities in housing and community development fields of endeavor.

NOW, THEREFORE, on a motion of Councilwoman Pfifferling seconded by Councilman Boncore, be it resolved, that the Town Board of the Town of Islip herewith and hereby acknowledges the contributions of the Federal Low-Income Housing Program and the Federal Community Development Program to the health and well being of this community, and be it further

RESOLVED that the Town Board of the Town of Islip hereby petitions the Congress of the United States of America to continue these programs for the benefit of the citizens of the Town of Islip; and be it further

RESOLVED, that the Town Clerk is hereby authorized and directed to prepare and transmit all necessary documentation of this resolution to The Honorable Robert Dole, Senate Majority Leader, The Honorable Robert Packwood, Chairman, Senate Finance Committee, The Honorable Jack Garn, Chairman, Senate Housing & Urban Development Committee, David Stockman, Director, Office of Management & Budget, Samuel Pierce, Secretary of Housing and Urban Development, The Honorable Robert Michel, House Minority Leader, The Honorable Dan Rostenkowski, Chairman, House Finance Committee and Ways & Means Committee, The Honorable Fernando St. Germain, Chairman, House Housing & Urban Development Committee, Congressman Samuel Stratton, and all members of the United States House of Representatives and the United States Senate who represent portions of Suffolk County

Upon a vote being taken, the result was: Unanimously carried.



HALE MAHAOLU

200 HINA AVE. • KAHULUI, MAUI, HAWAII 96732 • PH: 877-6242

ALAN
KAPLAN
877-6242

ELAN
KAPLAN
877-7705

LAMAR
KAPLAN
877-0771

JOHN P. HARRIS
KAPLAN
877-0772

CHSP
KAPLAN
877-0772

LORNA GARDNER D.D.M.
KAPLAN
877-0772

March 13, 1985

Representative Gonzalez, Chairman
Subcommittee on Housing & Community Development
House of Representatives
2301 Rayburn House Office Bldg.
Washington, D.C. 20515

Dear Representative Gonzalez,

Thank you for your interest, concern, and efforts to continue the funding for the CHSProgram.

The HUD administered CHSProgram has provided much needed support services to the frail and handicapped elderly and has successfully prevented and even eliminated some premature and/or inappropriate institutionalizations. Without this program, many of these frail elderly, especially those with little or no supporting network of family and friends, would almost certainly face institutionalization.

Institutionalization is a costly approach to care for our low-income, frail elderly. It is also paid primarily by Medicare and Medicaid. The CHSProgram cost about 1/3 as much as institutionalization per person. The handful of pilot programs across our nation can easily provide audited data to substantiate its effectiveness in terms of cost, delivery of services, and human satisfaction.

Please help us to help our frail elderly. Your efforts to secure funds for the CHSProgram would be most appreciated.

Our Warmest Aloha and Mahalo.

Sincerely,

Professional Assessment Committee:

Roy K. Katsuda, Executive Director
Hale Mahaolu

Ryan K. Nishita
Ryan K. Nishita
Project Manager - Elua

Roy S. Pusato
Roy S. Pusato
Project Manager - Akahi

Hannah Kamei
Hannah Kamei
Maui Rehabilitation Center

Jo Ann Hale, R.N.
Jo Ann Hale
Public Health Nursing

Harvia Tonsi
Harvia Tonsi
Elua Project Tenant

Josephine Reyes, Director
CHSProgram - Hale Mahaolu

Community Support Services:

Christopher L. Hart
Christopher L. Hart
Director of Human Concerns
County of Maui

Cladys Baies, Executive Director
Maui Economic Opportunity

David Murata, Executive Director
Maui Rehabilitation Center

Kazuoichi Nomazaki
Kazuoichi Nomazaki
Maui Branch Administrator
State Dept. of Social Services

3277.

VILLAGE OF



MAMARONECK

Village Hall
Mamaroneck, N.Y. 10543

BOARD OF
TRUSTEES

TELEPHONE
928-7434
AREA CODE 914

March 11, 1985

Congressman Henry Gonzalez
United States House of Representatives
Washington, D.C. 20515

Dear Congressman Gonzalez:

President Reagan's 1986 budget will terminate Department of Housing and Urban Development programs, including Urban Development Action Grants (UDAG) Section 8 Housing and Community Development Block Grants (CDBG). The previous cuts in subsidized housing and community programs in the past few years have adversely affected those people with low incomes who cannot find affordable, adequate housing. Termination of these programs will make the situation desperate.

Furthermore, programs such as those provided by the Washingtonville Housing Alliance in Mamaroneck, which aim to provide housing for low income and moderate income residents will be eliminated without federal funding.

We presently are able to help 321 residents with Section 8 subsidy. Many of these recipients are elderly people. To cut out a program that helps our older citizen to retain some dignity in their waning years is despicable. Do not let this happen.

Very truly yours,

Beth Hofstetter

Beth Hofstetter, Trustee
Village of Mamaroneck

BB:RD

THE FRIENDLY VILLAGE



CITY OF PHILADELPHIA

DIRECTOR OF HOUSING

March 21, 1985

JULIA O. ROBINSON
1234 Market Street
Seventh Floor
Philadelphia, PA 19107
898-6750

Subcommittee on Housing and
Community Development
Committee on Banking, Finance
and Urban Affairs
United States House of
Representatives
2128 Rayburn Housing Office Building
Washington, D.C. 20515

Ladies and Gentleman:

Thank you for the opportunity to have my comments appear on record supporting the continuation of a strong federal presence in addressing the housing and community development needs of our Nation's cities.

I would like to briefly detail the importance of Housing Assistance, the Community Development Block Grant, the Urban Development Action Grant, and Energy Assistance to the City of Philadelphia and the effects of the proposed FY-1986 Housing and Urban Development (HUD) Budget.

Housing Assistance

The proposed budget contains no funding request for aid for the homeless. This comes at a time when we are experiencing a 30% increase in usage of our shelters. As crucial as this problem is to the nation, the shelter and housing needs of this population must be addressed on a federal level, as public sentiment focuses on the provision of permanent and long-term housing assistance.

As the third largest public housing authority in the nation, the Philadelphia Housing Authority manages 15,190 Conventional sites and 7,639 Scattered sites for a total of 22,829 units for low income families throughout the city. The Authority is the landlord for 10% of the city's renters.

The proposed reduction to \$1 billion operating subsidies is considerably less than the \$1.4 billion authorized in H.R. #1 and supported by the Council for Large Public Housing Authorities (CLPHA) which we strongly endorse. The effect of the reduced operating subsidies is intensified when one considers that it reflects the administration's adoption of a reduced vacancy funding regulation coupled with a one year freeze on public housing personnel. After adjustments for tenant rent and utilities, which are assumed to be constant, the Philadelphia Authority would be left with a remaining operating budget that reflects an actual reduction of 45%.

Of equal concern to the Administration's proposed reductions is the level of funding for comprehensive modernization. The proposed 80% reduction in the available Capital fund from \$846 million in FY-1985 to \$175 million FY-1986 translates to a similar reduction in modernization funds for the Philadelphia Authority from \$12.5 million received in FY-1985 to the projected \$2.5 million in FY-1986, which in actuality may be even less since the FY-1986 modernization funds will be available for "emergency" purposes only. The \$2 billion in budget authority proposed in H.R. #1 and supported by CLPHA and Philadelphia is the minimum annual amount which should be authorized to address the substantial rehabilitation and modernization needs of Philadelphia and other authorities.

The proposed 10% administrative fee reduction in the Section 8 program will negatively impact program performance. In addition, the Administration's support of the voucher program requires comment. The theory that vouchers are more economical than certificates remains to be proven, as the demonstration program is ongoing. It is our contention that Congress should not permit the Administration to foster a subsidy program that has not been clearly and conclusively proven to be better.

The Administration's proposed budget reductions for public housing amounts to a \$27 million total loss, a loss so severe that, if enacted, would render the Philadelphia Housing Authority virtually inoperable.

CDBG

Philadelphia is justly proud of its reputation as a "City of Neighborhoods". Close-knit communities throughout our city have fostered a community spirit and vitality about which many cities can only dream. Philadelphia is blessed with a sense of vigor in its neighborhoods that contributes greatly to the strength of the city as a whole.

The City also recognizes that certain community development activities are important corollaries to housing improvement. These items include among others: economic development activities aimed at job creation and retention and neighborhood commercial revitalization; social services; renovations to community facilities; site improvements and close-out of urban renewal liabilities. In Philadelphia, federal Community Development Block Grant funds are the sole source of funding for these services and programs.

The proposed 10% cut in the Community Development Block Grant and a change in the entitlement cities/non-entitlement ratio from 70/30 to 60/40 translates into a 24% reduction in funding for Philadelphia. This amounts to a \$14.6 million loss which would entail a reduction in program services in order to maintain a 50% expenditure for housing per local ordinance.

UDAG

The termination of the UDAG program would mean the loss of an important economic development tool to the City, used for leveraging private dollars.

19 UDAG funded projects resulted in the creation of 2000 permanent jobs, and over \$45 million UDAG dollars leveraged. The elimination of the UDAG program will directly affect 14 new projects currently being planned. Of major concern is the 1200-room hotel

which is being proposed as a part of the City's new convention center project. The convention center and hotel are projected to bring a total of 3,200 new permanent jobs to the City. While this program was primarily utilized as an economic development tool, it has also provided a valuable resource for housing development in Philadelphia. Housing UDAG's awarded created 237 units in the City, including 3500 Powelton and Levering Court. Also, programs such as the conversion of the Hawthorne School to housing will not be possible. In addition, the loss of UDAG funds, in light of the proposed elimination of Housing Development Grants (HODAG), will have a tremendously adverse impact on Philadelphia neighborhoods.

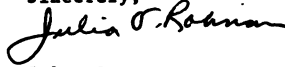
It is ironic to note that last year the administration lauded UDAG as the perfect opportunity for public-private partnership, and is now planning its termination based on purely deficit reduction reasoning. The City of Philadelphia strongly supports the continuation of UDAG.

Energy Assistance

The proposed five-year phase-out of the low-income weatherization grants and freeze on the Low-Income Home Energy Assistance Program is based on proposed legislation to use recoveries from petroleum price overcharges and on the assumption that charitable organizations, and state and local governments can be relied upon for funding. The loss of revenue from these programs, which provide assistance through the State, will have a drastic impact on the City since Pennsylvania provides no State revenue for energy assistance. The Low-Income Weatherization Program funds 7 Philadelphia non-profit agencies which provided weatherization assistance to 2,571 units, \$2,802 million allocated by the State. The Low-Income Energy Assistance Program has provided 66,902 Philadelphia households with LIHEAP Grants, for a total of \$19.2 million. The phase-out and freeze of these programs will directly increase the number of persons unable to pay their utility bills.

In conclusion, I request on behalf of all cities, large and small, that you review the comments and testimony presented and consider the debilitating affects the proposed FY-1986 HUD Budget will have on our nation's cities.

Sincerely,

A handwritten signature in cursive script, reading "Julia O. Robinson".

Julia O. Robinson
Director of Housing

JOR:DML



Plattsburgh, New York

Alma G. Cote
City Clerk

Office of the City Clerk
City Hall
Plattsburgh, New York 12901
518 - 563-7702

Alma G. Cote
February 26th, 1985

At a Regular Meeting of the Common Council of the City of Plattsburgh, New York held Thursday, February 21st, 1985, the following resolution was adopted:

By Alderman Stewart; seconded by Alderman Hall:

WHEREAS, one of the basic functions of government is the assistance of people who cannot assist themselves, and

WHEREAS, government is at its best when it is able to regenerate the community which it governs, and

WHEREAS, it is only with Federal assistance that local governments provide housing for low-income people and at the same time, encourage development that provides the jobs for people and

WHEREAS, proposals have been made at the Federal level which would seriously curtail activities in housing and community development fields of endeavor.

NOW THEREFORE BE IT RESOLVED: That the Common Council of the City of Plattsburgh, N.Y. herewith and hereby acknowledges the contributions of the Federal low-income housing program and the federal community development program to the health and well-being of this community and

FURTHER RESOLVED: to petition the Congress via this resolution, to continue these programs for the benefit of the citizens of the City of Plattsburgh, New York.

On roll call, Aldermen Stewart, Hall, Lockwood, Blumette, Poitras and LaMarche voted in the affirmative; no one in the negative: CARRIED

CERTIFIED A TRUE COPY

Alma G. Cote
CITY CLERK



ROCHESTER HOUSING AUTHORITY

EXECUTIVE AND ADMINISTRATIVE OFFICES
140 WEST AVENUE ROCHESTER, NEW YORK 14611
(716) 328-6200

THOMAS F. MURPHY
Executive Director

March 12, 1985

The Honorable Henry B. Gonzalez
United States Congressman
Chairman, House Sub-Committee on
Housing and Community Development
2131 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Gonzalez:

It goes without saying that Fiscal Year 1986 will be a most difficult year for many agencies and organizations that heretofore have relied in part or in whole on Federal dollars, as the Federal Administration attempts to whittle away at the staggering deficit. Even though the deficit must be addressed, it is most important for you and your colleagues not to forget the proverbial "safety net" which affects so many public housing tenants nationally.

While we are grateful for your support of housing programs in the past, we urge you, as part of your deliberations of the President's FY86 Budget, to seriously consider three (3) areas that are crucial for the continual successful operations of housing authorities:

- a) In order to properly manage the stock that we presently have, it is imperative that public housing authorities receive full funding under the Performance Funding System (PFS) and not a reduced amount as recommended by the Administration. A total appropriation of \$1.4 billion, including \$100 million for costs beyond control and appeals is urged. Approximately \$137 million ought to be available from FY85 in carry-overs, resulting in a need for new appropriations of approximately \$1.26 billion.
- b) An adequate level of funding for the Comprehensive Improvement Assistance Program (CIAP) is essential in order not to allow our existing stock to fall into disrepair. Nationally, at least \$2 billion in budget authority is urged. There are presently approximately 1.3 million public housing units in management,

with an estimated average replacement value of \$60,000 per unit, for a total value of \$78 billion ... a substantial public investment that cannot be ignored. Setting aside 1.5% of this value annually as a capital improvements reserve (assuming no backlog of modernization needs that need to be met through "catch-up" funding), would result in a need of \$1.7 billion per year. Under CIAP, this would be doubled to cover debt service, for a total need of \$2.34 billion per year -- in order to cover the ongoing accrual of new needs irrespective of the backlog of old needs.

- c) Since the beginning of the public housing program in 1937, housing authority bonds and notes have had a tax-exempt status. This vehicle of financing has served the industry well over the decades and there is no logical reason to abandon what has worked positively. We urge you to not support the Administration's intention to destroy a proven finance vehicle and instead work to retain the tax-exempt status. The Administration's plan can be characterized as a thinly veiled attempt to severely curtail public housing activity by making the program financially unacceptable to Congress since the new method would result in larger annual budget outlay figures.

It seems obvious that the Reagan Administration sees a limited governmental role in something as basic and necessary as providing shelter and maintaining that shelter. It is ignorance at its best to think that the private sector will solely take on the role of guardian of the poor. We urge you to help dispel any pervasive dearth of knowledge or education that exists in helping us, as public landlords, serve the hundreds of thousands of low income residents nationally who cannot afford market rate housing. We thank you for your support in the past and look forward to your willingness and accountability for the future.

Sincerely yours,



Thomas F. McHugh
Executive Director

TFM/jr



Juan Patterson
Executive Director

BOARD OF COMMISSIONERS
Joseph F. Diaz, D.D.S., Chairman
Priscilla Adelman, Vice Chairman
Glenn Barrington
G. J. Hernandez, C.P.A.
Leonard C. Garrett
Ann R. Porter
Margaret A. Fisher, Ph.D.

Hon. Fernand St. Germain, Chairman
House Banking Committee
United States Congress
Washington, DC 20515

Dear Sir:

The Tampa Housing Authority has been examining the Administration's proposed budget with great and concerned interest. A complete analysis of budgetary restrictions over the past three years has shown us that housing, among other programs, has borne an unproportional share of the burden in reducing the federal deficit. Because of that burden and because of the dire need for viable housing programs in today's society, I am strongly recommending that the Congress adopt a spending freeze reflecting funding appropriated for 1985 plus an inflation rate of 4%. This freeze should be applied to all federal outlays including defense. Specifically I am recommending that the following funding levels be approved:

CDBG - \$3.611 billion
UDAG - \$458 million
Section 8 - \$225 million
Section 312 - repayment levels
Rental rehabilitation grants - \$156 million
Public housing modernization - \$1.794 billion
Public housing operating assistance - \$1.423 billion
Housing development grants - \$120 million
Congregate housing services - \$10 million
Public housing construction - 5,000 units
Indian public housing - 2,000 units
Section 202/Section 8 - 12,000 units
Section 8 moderate rehabilitation - 5,000 units
Section 8 existing - 75,390 units

Should you have any concerns or comments, please feel free to contact me at your convenience.

Sincerely,


Juan A. Patterson
Executive Director

JAP:jv

P.O. Box 4766 Tampa, FL 33677 • 1514 Union St. Tampa, FL 33607 • (813) 253-0551



LEGAL COUNSEL FOR THE ELDERLY
1331 H Street, N.W., Room 1005
Washington, DC 20005
(202) 234-0970



DISTRICT OF COLUMBIA OFFICE ON AGING

March 22, 1985

The Honorable Henry B. Gonzalez
Chairman
Sub Committee on Housing
and Community Development
Rm. 2123 Rayburn Bldg.
Washington, D.C. 20515

Dear Congressman Gonzalez:

We would like to commend your efforts regarding Mandatory Meal Plans. In this regard, we'd like to request that documents from one of our clients, Mary Tillman, be added to the hearing records.

Enclosed you will find documents which entail explanations of client's expenses, lease agreements, and letter of increase in food service. Again, I would like to express a sincere thank you.

Sincerely,

A handwritten signature in cursive script that reads "Karen O. Cobble".

Karen O. Cobble
Intern

KOC/na

Enclosures

American Association of Retired Persons 1909 K Street, N.W., Washington, D.C. 20049 (202) 872-4700

Vita R. Ostrander *President* Cyril F. Brickfield *Executive Director*



ST. MARY'S COURT HOUSING DEVELOPMENT CORPORATION
 725 - 24th St., N. W. • Washington, D. C. 20037 • 202/223-5712

Mary Tillman
 404

December 26, 1984

Dear Ms. Tillman:

Effective January 1, 1985, your food service fee will increase to \$ 120.00 per month. Your rent continues to be \$ 105.00 resulting in a total monthly payment of \$ 225.00.

Thank you.

Sincerely,

Beatrice Watson

Beatrice Watson
 Business Manager

SA #297.00
 225.00
 \$ 72.00

Left 1. To buy food because I can't eat St Mary's food
 2. Pay Tel. Insurance (3) (fire to church) (4) (Buy clothes) (5)
 (6) Emergencies etc.



ST. MARY'S COURT HOUSING DEVELOPMENT CORPORATION
 725 - 24th St., N. W. • Washington, D. C. 20037 • 202/223-5712

MEMORANDUM

TO: Residents of St. Mary's Court
 FROM: Barbara Brunton *IB*
 SUBJECT: Increase in HUD Subsidy
 DATE: December 22, 1984

You will find posted in the lobby, dining area and laundry room, a notice to residents of our intention to request an increase in rental subsidies from the U.S. Department of Housing & Urban Development. This notice is required in all federally subsidized housing.

It is important that you fully understand that the proposed increase in rents will in no way affect the amount of your monthly rental payments. We are asking the Department to increase its share of the monthly rent on all units. The proposed increase is needed to offset the increase in overall operating costs of St. Mary's Court.

PLEASE NOTE THAT since the anticipated increase affects only payments received from the Department, YOUR MONTHLY RENTAL PAYMENTS WILL NOT BE INCREASED.

Thank you.

1985 St. Mary's Court is asking HUD to increase its payment

<i>1984</i>	<i>Proposed Increase</i>	<i>Proposed Rent</i>	<i>1 Bedroom</i>
<i>\$479.</i>	<i>\$29.00</i>	<i>\$508.00</i>	<i>\$599</i>
	<i>\$36.00</i>	<i>635.00</i>	

My income for 1985 *Rent Control April 15, 1985 Run out*

306.00 - A
225.00 Rent + 105
\$81.00 Rent + 105
4.00
Del Bill 6.00
One 7.00
None 7.00

William Tillman - Born 3/6/1907

725-24th Street, 77th Apt. 40 + St. Marys Court

Subsidized Housing

1984 - SSA \$297.00 - Coia 3.5% = \$11.00 Medicare deduct \$2.00 left \$306

I moved in St. Marys April 1979 - my daughter paid for the meal

Feb. 5, 1980 - my last interview.

Left Gov. Ins. etc. that was rightfully mine - Eliminated me from SSA + Medicare

Dec. 26, 1984 - Notice Food Service - need to \$5.00 more in April 1985 = \$12

First \$105.00 - Monthly total \$225.

I paid \$225 - June Feb. March
I can't eat the food it does not agree with me.

1985 - March Receipted

SSA - \$36.00 - \$36.72

HUD allows Medicare insurance
payment to be added in income

Other Income	\$1,577.63
SSA + Med Ins	3855.00
	<u>5433.63</u>
Medical Ex.	\$767.04
	<u>0.9%</u>
	\$23,011.2

\$5433.63
<u>- 23.00</u>
\$5412.63
<u>28.90 HUD</u>
\$5383.73

Food I can't eat \$130.00
Apr 1985 another \$130.75 Rent
\$5.00 attached \$260.75

They have calculated Rent for April \$117.00
I am my income therefore St. Marys
Court can't subsidize my food service
I can't eat I was told by the station

Food 130.00
\$147.00

\$316.00 SSA
147.00
\$463.00 left

#186. 7 miles
 234. Sub. C.G.R.P.
 4 30
 6.7.74
 4 86
 6.7.74
 530
 21.6 Sub. C.G.R.P.
 766
 11.7.74 Cotton 2.00
 1022
 334
 1389
 6416
 7797

Prudential

Meeting 3/5 85 7 PM Thursday (Marty Barry)

Assistant Floor Captain to observe results of fire drill - 10 AM

TV after 11 PM adj. rated home

21 sitting list for occupancy reduced (30 people still on list) (20 18, 200) \$140,000

Hire price 140 Tins (45 Pro year)

Maria Forline { Just In Case Booklet
 Assistant (Marty) { Summary Manual in time
 of need \$4.95

Shopping - March 12 - Safeway

St. Paul's Way - 15th

Party

7.25th Museum



ST. MARY'S COURT HOUSING DEVELOPMENT CORPORATION
725 - 24th St., N. W. • Washington, D. C. 20037 • 202/223-5712

Dear Ms. Tillman:

The Department of Housing and Urban Development regulations now require that a recertification of income be made annually.

To complete our review of your income, I have scheduled you for an interview with me on January 18, 85 Friday at 10:30 am

To help us in processing your recertification, please complete the enclosed form and provide supporting documents for the figures supplied. Please bring the completed form and documents to the interview.

Thank you.

notice to sign lease Monday March 4, 1985

Sincerely,

Beatrice Watson

Beatrice Watson,
Business Manager.

Project No. DC 39-0704-201
Loan No. 000-EH-003-L8/WAC

AMENDMENT TO LEASE AGREEMENT

Amendment is hereby made to the Lease Agreement made and entered into the 1st day of April, 19 79 between the St. Mary's Court Housing Development Corporation, as LANDLORD, and Mary Tillman, as TENANT as follows. All provisions of the Lease Agreement not specifically amended hereby are incorporated herein by reference and remain in full force and effect.

"THIS AMENDED AGREEMENT made and entered into this 1st day of April, 19 85, between the St. Mary's Court Housing Development Corporation, as LANDLORD, and Mary Tillman as TENANT,

"WITNESSETH THAT:

"WHEREAS, the LANDLORD has determined that the TENANT is eligible to pay less than the fair market rental for the described unit,

"NOW THEREFORE,

"1. The LANDLORD leases to the TENANT, and the TENANT leases from the LANDLORD dwelling unit 404 in the project known as St. Mary's Court for a term commencing on the 1st day of April, 19 85 and ending on the 30 day of April, 19 85.

"2. The total rent (Contract Rent) shall be \$ 479.00 per month.

"3. The total rent specified in paragraph 2, above, shall include the following utilities:

All.

"4. The charge for meal service shall be \$ 130.00 per month.

"5. Of the total rent, \$ 362 shall be payable by or at the direction of the Department of Housing and Urban Development (HUD) as housing assistance payments on behalf of the TENANT, and \$ 117.00 shall be payable by the TENANT. These amounts shall be subject to change by reason of changes in HUD requirements, changes in the TENANT's family income, family composition, or extent of exceptional medical or other unusual expenses in accordance with HUD-established schedules and criteria; or by reason of adjustment by HUD of any applicable Utility Allowance. Any such change shall be effective as of the date stated in a Notice to the TENANT."

WITNESS:

St. Mary's Court Housing Development Corp.
LANDLORD

By: Barbara J. Brunton
Barbara J. Brunton, Administrator
Mary Tillman TENANT



March 11, 1985

Representative Gonzalez
2413 Rayburn H.O.B.
Washington, D.C. 20515

Sir:

You are currently involved in discussions concerning continuation of funding for Congregate Housing Services Programs (CHSP). In 1986, 41 CHSPs across the nation will lose their funding; this letter is written as part of an effort to ensure that these vital programs remain available to the senior citizens who rely so heavily on them.

Our experience with the CHSP at our Cathedral Plaza senior housing project in Denver, Colorado has been totally positive. Many of our elderly residents would currently be confined to nursing homes were it not for the availability of the services that CHSP provides, services that mean the difference between vital, independent living and expensive, often medically unnecessary institutionalization.

Cost-effective CHSPs, averaging one-third the cost of maintaining individuals in institutional settings, are not only economically advantageous but are highly desirable in terms of the preservation of the vitality and dignity of the elderly of our nation. We urge you to consider these points, and recommend the \$10 million funding for CHSP to the Appropriations Committee on March 15.

Sincerely,

Archdiocesan Housing Committee, Inc.

ARCHDIOCESAN HOUSING COMMITTEE, INC.

200 Josephine
Denver, Colorado 80206

(303) 388-4411

CLAUDE McKAY HOUSING ASSOCIATION, INC.

221 West 113th Street • New York, N.Y. 10026

(212) 749-2321 — 866-9095

March 22nd, 1985

Honorable Henry B. Gonzales
Member
United States Congress
Rayburn House Office Building
Washington, D.C. 20515

Re: "Housing Act of 1985"

Dear Congressman Gonzales :

We are pleased to inform the Congressman from Texas, that we have received with a great deal of pleasure , H.R. 1, which was requested.

We have also been able to provide the technical assistance in the formation of the "Harlem Urban Nehemiah Housing Coalition," among a group of members of the clergy, in the Central Harlem Neighborhood Preservation District.

We have advised our local Congressman, Hon. Charles B. Rangel, Hon. Daniel P. Moynihan, and Hon. Alphonse M. D'Amato, of the organization at All Souls' Church, 88 St Nicholas Avenue, New York, New York 10026. Rev. David N. Licorish, Chairman, Rev. Henry V. Harrison, Secretary, and Rev. Father David A. Jones, Treasurer.

It is our firm conviction to encourage the passage of this Bill, as a priority of the 99th Congress, to provide the opportunity for home ownership, which has been, and should continue to be, a top national objective. The benefits of home ownership can never be overemphasized.

We hope that the Congressman will be able to gain the full support and influence of his colleagues in both Houses, for them to recognize their responsibilities and to take action now to provide a meaningful opportunity to the many millions of Americans who, until now have wanted, but could not afford to purchase a home prior to the possibilities this Bill will afford.

We urge that you plan for us to meet with members of the Congress, during the month of April , after the Easter holidays, in order that our group may be able to express to you and your colleagues, the importance of the passage of H.R.1.

Best wishes for continued success.

Sincerely,

CLAUDE McKAY HOUSING ASSOCIATION, INC.

Alex Prempeh
Alex Prempeh
President

cc: Rev. David N. Licorish
Chairman
Harlem Urban Nehemiah Housing Coalition

PRESS RELEASE

HARLEM URBAN NEHEMIAH HOUSING COALITION
88 St Nicholas Avenue
New York, New York 10026
(212) 663-4514

Contact :
Rev. Avid N. Licorish
Chairman
Rev. Henry V. Harrison
Secretary
Rev. Father Lucas
Public Relations

Members of the Central Harlem community clergy, in forming and establishing the "HARLEM URBAN NEHEMIAH HOUSING COALITION" are calling upon the National Council of Churches to participate in the opportunity to provide home ownership opportunities ~~for~~ their respective congregations and the general public at large.

Further, we are calling upon the Congressional Black Caucus and the Congress of the United States, to pressure the House, Senate and the President to support the passage of H.R. 1. "The Housing Act of 1985", as amended.

President Reagan has indicated that "We have come to a turning point, a moment for hard decisions." And he has asked us "If not us, who? If not now, when?"

Well, we among the clergy also feel that the decision to support and encourage home ownership by means of the support and passage of the "Housing Act of 1985" as introduced in H.R. 1. by Hon Henry B. Gonzales of Texas, should be now by the 99th Congress.

The President has also stated, "Let us resolve," he said, "that we the people will build an American opportunity society in which all of us - white and black, rich and poor young and old- will go forward together, arm in arm."

We, the members of the "Harlem Urban Nehemiah Housing Coalition" are quite willing to accept this premise, as a basis for the support and passage of the "Nehemiah Housing Plan to become the U.S. national Housing Policy, which will afford and provide home ownership for all America.

Community Economic Development Council Inc.

8911 Devonshire Blvd. Jacksonville, Florida 32208
904/764-1728

Professional Services

Robert E. Porter, LT. COL. RET., President

John Dempa, Executive Director

March 20, 1985

The Honorable Henry Gonzalez
Chairman, Housing and Community
Development Subcommittee
2453 Rayburn Office Building
Washington, D. C. 20515

Dear Representative Gonzalez:

I urge you to support the continuation of the Community Development Block Grant (CDBG) program at its present level of funding.

This program is one of the few that have directly benefited low to moderate income families and their declining neighborhoods. Housing rehabilitation, job training, street resurfacing, new health and recreational facilities, economic development, improved security for the elderly are just part of the legacy of CDBG.

The CDBG program has personally assisted our organization in sponsoring the minority exposition which is designed to improve procurement opportunities for minority businesses from both public and private sectors.

Please support the full funding of CDBG. The alternative will eventually prove far more costly to our society both monetarily and in ways that cannot be measured.

Sincerely,



John W. Dempa, Sr.
Executive Director

JWDSr/ewc

An Equal Opportunity/Affirmative Action Employer



FAMILY HEALTH SERVICES, INC.

1824 Pearl Street
Jacksonville, Florida 32206
904 / 354-7799

March 18, 1985

Davalu C. Mudd, D.P.A.
Executive Director

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The Honorable Henry Gonzalez
Chairman, Housing and Community Development Subcommittee
2453 Rayburn Office Building
Washington, DC 20515

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This program is one of the few that have directly benefited low to moderate income families and their declining neighborhoods. Housing rehabilitation, job training, street resurfacing, new health and recreational facilities, economic development, improved security for the elderly are just part of the legacy of CDBG.

CDBG funds have helped to support our program in a number of significant ways. The first grant that we received was from the NSP and enabled us to employ the coordinator of our new multi service program for teenagers located in the inner city among high risk youth for teen pregnancy and juvenile delinquency. The program met such a need and became so successful that HUD helped our program with a second grant to buy another building next door which we are renovating with private funds. The partnership of public and private funds has made possible the development of a highly effective program for inner city kids that is becoming well known through our community and state.

Please support the full funding of CDBG. The alternative will eventually prove far more costly to our society both monetarily and in ways that cannot be measured.

Sincerely,

Davalu C. Mudd

Davalu C. Mudd, DPA
Executive Director

DOM/cgw

A Non-Profit Coordinating Agency for Fertility-Related Health, Education, and Social Services
and

"The Bridge" a Multi-Service Center for Teenagers



FAMILY HEALTH SERVICES, INC.

1824 Pearl Street
Jacksonville, Florida 32206
904 - 354-7799

Dorothy C. Modell, D.P.A.
Executive Director

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David Richardson
Vickie Seif
Miss Suter, M.D.

The Honorable Henry Gonzalez
Chairman, Housing and Community Development Subcommittee
2453 Rayburn Office Building
Washington, D.C. 20515

Dear Congressman Gonzalez,

I urge you to support the continuation of the Community Development Block Grant program at its present level of funding.

This program is one of the few that have directly benefited low to moderate income families and their declining neighborhoods. Housing rehabilitation, job training, street resurfacing, new health and recreational facilities, economic development, improved security for the elderly are just part of the legacy of CDBG.

The CDBG Grant has helped the organization that I am employed with in many ways. This grant concerns me because it also funds the apartment building that I live in. Without these funds it would be difficult for me to keep an apartment. I am also concerned for my elderly and handicapped neighbors who need this grant for their survival.

Please support the full funding of CDBG. The alternative will eventually prove far more costly to our society both monetarily and in ways that cannot be measured.

Sincerely,

Vicki L. Jones
Vicki L. Jones

VLJ: sf

cc: Dick Bowers



A Non Profit Coordinating Agency for Lesbians Related Health, Education, and Social Services
and
"The Bridge" a Multi-Services Center for Teenagers

3301

the first presbyterian church

FOUNDED IN 1805



MANSE
6 FULTENY SQUARE
BATH, N.Y. 14810
(807) 778-8878

THE REV. DR. DAVID S. BARNARD, PASTOR

CHURCH OFFICE AND STUDY
6 FULTENY SQUARE
BATH, N.Y. 14810
(807) 778-8484

Rep. Henry B. Gonzales, Chairman
Housing and Community Development Subcommittee
2129 Rayburn House Office Building
Washington, D.C. 20515

February 27, 1985

Dear Mr. Gonzales,

A large number of my parishioners are residents of Clyde Simon Lakeview Apartments, a 202/8 Housing Project here in Bath. This facility has provided a wonderful environment for a very diverse group of people, giving a sense of community support that many elderly lack.

However, I am very concerned about the proposed mandatory meal program being considered in Washington. The financial burden of this could drive many of the residents out of the facility. Also, most of them have cooked their own meals all their lives, and would be very dissatisfied with "institutional" cooking. The task of shopping and making meals is often a therapeutic one, allowing the senior citizen to feel self-reliant and capable at a time when some degree of independence has been lost. The elderly tend to be "fussy eaters," evidenced by the fact that many of them eat very little when they are hospitalized, complaining that, "It's not like my home cooking".

The proposed mandatory meal program has caused great distress for many of our residents. I write to urge you to alleviate their concern by immediately rejecting such a proposal and considering other alternatives to reach your goals as a committee.

Thank you for your prompt attention to this matter.

Yours truly,

Rev. Dr. David S. Barnard
Pastor

Mr. Gonzales

MAR 4 1966

I am a son of a resident
of 202-8 Housing Project in
Bath, New York

I am very upset about
my parents having to pay for
their meals. They are able
to cook for them selves and
should not be forced to pay.

They enjoy doing their own
cooking and this is good
for older people they must
still have interest in their
lives. also they are on a
fixed income and just
cannot afford this extra
money.

Why should they be told
what they must eat & pay
for it at their ages.

Harold M. Brownell
Avoca, R.D.-1
N.Y.

HAROLD M. BROWNELL
RT. 1 WHEELER RD.
AVOCA, N.Y.
14008



Mr. Gonzales.

APR 4 1985

I am a daughter in-law
of a resident of 202-8 Housing
Project in Bath, N.Y.

I am very upset about
my in-laws having to pay
for their meals. They are
just about getting along now
and there in come with out
this extra added to their bills.

My mother-in-law does real
good cooking and it gives
her a interest in life which
she needs. I don't think any
one has to right to tell them
what they must eat or do just
because they are old. What else
do old people have in life but
to enjoy eating and what
they want to eat.

Ruth E Brownell
Avoca, B.R.-1
N.Y.

HAROLD M. BROWNELL
RT. 1 WHEELER RD.
AVOCA, N.Y.
14600



Dear Mr. Gonzales,

MAR 1 1985

I am the daughter of a resident
of a 202/8 Housing Project in
Coring, N.Y. ^{- in law -}

I am concerned about the possibility
of mandatory meal program at the
housing project.

My mother-in-law does not wish to
participate in this program. She
lives her own life. Does not
wish to eat a full meal
at noon. She is also
capable of fixing her own
food etc.

I feel this is violation of her
rights.

I do not think the Federal
Government should force her
to eat at a certain time &
have to pay be forced to pay
if she does not wish to do so.

USE: 504

Sincerely Yours

Dorothy Hogan
 62 Fifth St.
 Corning, N. Y. 14830

I see where it ~~can~~ serves
 our purpose but to
 punish the low income
 elderly!

44 182 7602

D. Hogan
 62 Fifth St.
 Corning, N. Y. 14830

MAR 1 1965

Dear Mr. [unclear]:

I am a friend of a resident of a 202/8 Housing project
in Bath, N. Y.

I am upset about the possibility of a mandatory meal
program in the housing project.

I am also elderly but very capable of planning
and preparing meals.

I believe this mandatory program is a violation of
her rights.

I do not believe that a Federal Or State should
make them eat when and where at their wishes and
be forced to pay if they eat or not.



Gertrude Klock
7 Shannon St.
Bath, N. Y. 14810

GOD'S LOVE, INC. _____

Ann Miller
Admin. Director

Lyle Anderson
Shelter Director

Janie Petaja
Counselor

Henry B. Gonzalez, Texas, Chairman
Subcommittee on Housing and Community Development
House Office Building
Washington, D.C. 20515



533 N. LAST CHANCE GULCH
HELENA, MONTANA 59601
442-7000

September 14, 1984

Dear Congressman Gonzalez,

We are writing to you because we know of your concern for the homeless people in America. The staff and Board of Directors of God's Love Shelter in Helena, Montana, are also concerned about our government's response to the problems of the homeless in America. That response has been, at best, inadequate.

From our experience and from information gathered by our staff and by the U.S. government, we know that the problem is growing worse -- the numbers of homeless in this country are increasing daily. They suffer great deprivation on all levels and our present facilities are not enough to provide emergency shelter for more than a fraction of those who need it.

Because the government programs do not adequately address these needs, nonprofit organizations such as ours have sprung up throughout the country to provide food, temporary shelter, and other services to the homeless. Unfortunately the efforts of the private sector are not enough to stem the rising tide of homeless people. We feel the Administration should be doing much more, and we are greatly concerned about the lethargic response of our federal government to this massive social problem.

In November 1983 the Department of Health and Human Services (HHS) reported that as many as two million Americans may be homeless -- a figure approaching that of the Great Depression of the 1930's. However, another federal agency seems to disagree with the HHS finding. A May 1984 report to the Secretary of Housing and Urban Development (HUD), prepared by the HUD staff, alleges that the problem is much smaller -- that only about 350,000 are homeless at any one time. Meanwhile, President Reagan observed recently that he believed many of the homeless living on the streets are there by choice (!)

Our government appears unable to come to grips with this problem of human suffering, despite all of our massive resources and technological sophistication. In fact, we cannot even get a reliable estimate of the scope of this problem.

Whatever the reasons for the lack of agreement between the HHS and HUD estimates, two points remain inescapable: the problem is getting worse, and a great many Americans are suffering severe deprivation.

Although our government agencies have not studied the matter adequately, those of us involved in caring for the homeless have been collecting information on local and regional levels. Our research staff reviewed the recent HUD report and found it to be seriously flawed. A comprehensive analysis presented by a Ph.D. expert (in research) on our staff, is enclosed for your review. (A short summary

-2-

of the critique precedes the complete analysis.) We think you may find this information useful in your efforts to provide better programs and services to the homeless. We are especially concerned that the government should not try to develop programs for the homeless, based on the self-serving, politically motivated misinformation in the HUD report.

Whatever the actual numbers of homeless, those experienced in caring for them agree that the problem is getting progressively worse. Shelter operators in our region report a steady increase over the past three years in the numbers of people requesting shelter. Even the HUD report provides information confirming the rise in the number of homeless. HUD acknowledges that over 40 percent of all shelters for the homeless have been in operation four years or less. Indeed, over 20 percent have been in existence for less than one year -- that most recent increase alone represents over 7,800 additional beds! (HUD Report p. 34).

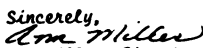
It is clear from these figures that the problem is worsening. After all, shelters develop in response to real problems to serve people without homes. Even the HUD report admits that we presently have shelter space for only one of every four who are homeless.

Another interesting fact reported in the HUD document is the nature of the response to the problem in this country. Over 90 percent of all shelters for the homeless in the U.S. are operated by private nonprofit organizations. The federal government's efforts to help with the problem have been limited. In November, 1983, Congress did enact PL 98-181, which authorized funds HUD could use to make grants to states and nonprofit groups in operating programs for the homeless. The Federal Emergency Management Agency (FEMA) distributed funds in 1983 and again in 1984 to assist local emergency food and shelter programs. The HUD Community Development Block Grant Program has also made funds available to assist shelters.

These few endeavors have been pitifully insufficient, however. We are very concerned about future federal aid for the homeless. We need many more shelters and programs, and the existing programs (those just mentioned) require changes. For example, the FEMA funds were distributed to communities according to a formula that takes into account a locality's unemployment rate. If a town's unemployment figure was below the FEMA minimum, it got no help. Yet unemployment rates actually may vary inversely with homelessness. Often, areas with reputations for high employment tend to attract the homeless: people tend to go where they think there are jobs. Consequently some communities with high employment may also have large numbers of homeless people, and might need help in funding shelters -- yet under the rules, they were ineligible for FEMA funds for those shelters.

It is disturbing that the Department of Housing and Urban Development is not taking an active and responsible leadership role in seeking lasting and humane solutions to this pervasive problem. There are many possible answers but they require exploration and evaluation. The homeless need immediate help.

We stand ready to provide assistance in the form of research and ideas about how to help solve some of these problems. Please call on us if you think we might be able to help.

Sincerely,

 Ann Miller, Director

AM/jm

SUMMARY OF OUR ANALYSIS OF THE HUD REPORT

The HUD estimates of the numbers of homeless are based on defective research procedures and incomplete data. HUD conducted no actual counts of the homeless. Instead its "researchers" only asked local officials to estimate the extent of the problem. Those estimates are merely the opinions of the people they contacted. Almost none of HUD's figures are based on any actual census of homeless people.

Hud did use data from counts of the homeless in three cities in the U.S. From this tiny number of reports -- each conducted with different research methods and for disparate purposes -- HUD claimed to predict the numbers of homeless for the entire country.

HUD attempted to dress its study in a mantle of scientific respectability by invoking such terms as "national sample", "sampling and weighting procedures", and so on. These terms are merely window dressing to hide a methodologically weak, flawed study. The use of such terms is an attempt to cover HUD's woeful lack of primary data about the homeless. That information, on anything approaching a national level, has yet to be gathered.

The HUD report falls far short of minimum standards of inquiry in the social sciences. Its estimates of the numbers of homeless are largely a collection of opinions -- and "opinions" must not be mistaken for reliable data about a human problem of tragic proportions.

Analysis of "A Report to the Secretary on the Homeless and Emergency Shelters", prepared by the U.S. Department of Housing and Urban Development, Office of Policy Development and Research, May, 1984.

Analysis Prepared by --Morton Arkava, Ph.D.
 God's Love Shelter
 533 N. Last Chance Gulch
 Helena, Montana 59601

The HUD report attempts to assess the extent of homelessness nationwide, to examine who the homeless are, and to determine the capacity of emergency shelters to care for the homeless. HUD's efforts to assess the numbers of homeless nationally are based on four sources of information:

- 1) Published local estimates of the problem
- 2) Telephone interviews with local officials in a nationwide sample of 60 cities.
- 3) Telephone interviews with a nationwide sample of shelter operators.
- 4) A combination of shelter counts and so-called street counts.

Based on telephone conversations with local officials, reviews of local studies, and site visits to ten cities, HUD estimated that about "250,000 to 350,000 persons were homeless on an average night in December 1983 or January 1984" (HUD Report, p.18). Those numbers happen to be several times smaller than the estimates of any other concerned expert, panel or agency.

HUD arrived at its figures in a curious fashion. Its approach to counting the homeless consisted almost entirely of asking other officials for estimates and of reviewing the few actual street counts made by others. At no time did the HUD research effort involve gathering direct evidence of the numbers of homeless. No research worker went out and counted the homeless. HUD simply asked others to make guesses about the problem.

The HUD report acknowledges that "No one has done a thorough census of the homeless population in the U.S.". (p.8). It also indicates that "an actual person count of the homeless would be useful" (p.6) -- but somehow concludes that HUD's methods of estimating the problem are good enough.

Those "research methods" would be laughable, were the problem to which they are applied of a less catastrophic magnitude. The estimates of the numbers of homeless provided by the local officials are just that -- vague, top-of-the-head estimates! Data obtained in this manner are unreliable at best. It is obvious that the answers obtained depend greatly on whom you ask. It is doubtful that another researcher repeating this procedure would receive even remotely similar answers if he were to ask the same questions of a different group of respondents.

In other words, the information gotten by this sort of technique is completely undependable. It does not satisfy any of the basic data-collection criteria normally applied to research in the social sciences. It is at best not even secondary data. It is, instead, a collection of casual estimates or impressions about a serious problem. Possibly the estimates and impressions HUD obtained were sincere. However, they certainly are no more credible than the estimates provided by other concerned and sincere people. For example, the HUD report's authors chose to disregard the estimates given by the Community for Creative NonViolence (based in Washington, D.C.) concerning the numbers of homeless. Yet they gave no reason why their informants' estimates should be given greater weight than CCNV's figures.

The point again is that, in the absence of an actual census of the homeless, any estimates are nothing but expressions of opinion -- and the answer you get depends on whom you ask. These kinds of estimates may have some limited use -- but they must not be confused with true research data that meet minimum social science standards of reliability and validity.

Another major flaw in the HUD report derives from its writers' analyses of direct counts of the homeless. They acknowledge that no nationwide counts of the homeless exist. So, to generate figures on the homeless nationally, they used three extant local studies -- surveys conducted in 1983 in the cities of Phoenix, Pittsburgh, and Boston. They admit that "These counts are the only ones known to exist at the present time" (p. 17). Yet that lack did not stop HUD from somehow extrapolating from those figures the number of homeless in the entire United States!

This procedure is extremely difficult to justify from a research point of view. The HUD approach is so methodologically flawed as to be nearly worthless. While it is true that certain population groups (such as the

homeless) can be estimated from small samples, it is also true that those samples must be selected according to rigorous sampling criteria. Perhaps most important, the samples must be selected according to random procedures -- one sample must have the same chance of being studied as any of numerous other samples.

Obviously, HUD followed no such procedures. By no stretch of the imagination do these studies, conducted in just three self-selected cities, meet any scientific criteria for random selection. The criterion of randomness is critically important when small samples are used to estimate populations, as HUD attempted to do. To compound their error, the HUD authors ignored differences in methodology that were used in the three cities. Because contrasting research methods were used, the survey findings obtained in the three cities cannot really be directly compared.

To further aggravate matters, HUD made an inexcusable error in using the data reported by the Phoenix study. The HUD report used the number of 1813 homeless as representing the street-count total for the Phoenix area (HUD Report, p.17). Yet the original Phoenix report estimated the total number of homeless around Phoenix at approximately 3,000 individuals ("The Homeless of Phoenix", p.114). Consequently HUD's estimate of the number of homeless in Phoenix is just as badly flawed as its other figures.

In the Boston study, the researchers stated plainly that they "were not attempting a count of the people living 'on the street' or the homeless temporarily housed with relatives or friends" (More Than Shelter, Boston 1984, p. xxi). In other words, the Boston investigators realized they were bypassing many of that area's homeless. Yet, despite this clear and specific qualification, HUD's staff used the count from Boston uncritically, comparing it directly to the numbers obtained in the two other cities. Again, the methods and even the objectives of these studies were not directly comparable.

3313



**HUDSON/PARK NEIGHBORHOOD
ASSOCIATION, INC.**

Box 2313
ESP Station
Albany, NY 12220

Fernando StGermain, Chairman
House Housing & Urban Development Committee
2108 Rayburn House Building
Washington, D.C. 20515

Dear Mr. StGermain:

President Reagan's proposed 1986 federal budget includes severe cuts in the Community Development Block Grant Program and the elimination of four other housing and development programs. These other programs are Urban Development Action Grants (UDAG), Section 312 rehab loans, Section 108 economic development loan guarantees, and the Housing Development Grants Program (HoDAG).

I am extremely concerned about the effect of these cuts on rehabilitation and job development efforts in the City of Albany. With the use of Community Development funds, more than 1,500 dwelling units and over 700 properties have been substantially rehabilitated within Albany. Approximately 70% of the property owners involved have been low and moderate income homeowners. Many of the properties rehabilitated were formerly abandoned derelicts. With Community Development funds and the Urban Development Action Grant Program, economic development efforts in the City of Albany have generated approximately 2,000 permanent jobs.

The Tri-cities' new, recent favorable (19th of 329) nationwide rating as a desirable area in which to live can be attributed in large part to the revitalization made possible by these funds. These programs have had a significant positive impact on the City of Albany, and I would urge your support to retain them.

Sincerely,

Mayron F. Pouloupoulos, President
Hudson/Park Neighborhood Association, Inc.

LANDAUER
 ASSOCIATES, INC. REAL ESTATE OPPORTUNITIES

Hugh F. Kelly
 Vice President

March 18, 1985

335 Madison Avenue
 New York, New York 10017
 (212) 687-2323
 Telex: 740-581-2042

Honorable Henry B. Gonzalez
 House of Representatives
 Rayburn Office Building, Room 2129
 Washington, D.C. 20515

Dear Representative Gonzalez:

It was my pleasure to attend the hearing held on March 14, 1985, concerning the National Nehemiah Housing Opportunity act, at the Housing and Community Development Subcommittee of the Housing Banking Committee. I am encouraged and gratified that the Nehemiah initiative is being considered as a model on the national level.

At the request of East Brooklyn Churches, I prepared the enclosed memorandum reviewing of a draft of the Act which is to be a part of H.R.1. All members of the subcommittee should be receiving a copy of this memorandum, multiple copies of which have been given to Representative Schumer's staff. I am sending you this additional copy because: a) you showed particular interest in Nehemiah by your active participation in last Thursday's hearing; and b) I am concerned that major re-drafting of the Bill is needed if the desired benefits of the program are to be enabled by the legislation.

I would be pleased to discuss the Bill, the Nehemiah program, and/or the memorandum with you or your staff at your convenience. As indicated at the hearing, Landauer has served as advisor to East Brooklyn Churches since 1981 on a pro bono publico basis. My personal activity in Brownsville and East New York on church-related matters has spanned nearly twenty years. I am eager to be of the greatest assistance in assuring that the National Nehemiah Housing Opportunity Act is fashioned to maximum public benefit.

Sincerely,

LANDAUER ASSOCIATES, INC.


 Hugh F. Kelly
 Vice President

HFK:a
 Enc.

Offices in Atlanta, Chicago, Houston,
 Los Angeles, Santa Ana and West Palm Beach
 Affiliated offices in London, Paris
 and other major cities

Memorandum

LANDAUER

To East Brooklyn Churches (EBC)

From Hugh F. Kelly *H.F. Kelly*

Subject "National Nehemiah Housing Opportunity Act"

Date March 13, 1985

On the occasion of the March 14, 1985 Congressional hearing concerning the proposed National Nehemiah Housing Opportunity Act, you have asked for comments on the East Brooklyn Churches' Nehemiah program and on the proposed legislation. I am pleased to offer these remarks, which EBC is authorized to disseminate at your discretion.

The Nehemiah program, in my judgment, makes political and economic good sense for New York City.

- Nehemiah provides a highly visible and significantly large physical improvement in the City over a very short period of time.
- The program takes wasting municipal hard assets - streets, water and sewer lines, traffic lights, subways - and returns them to productive use.
- Land that had been a liability, sitting in rem, is returned to the tax rolls over time.
- By providing a desirable shelter option, Nehemiah helps stem the outmigration of the city's minority middle-class, an important population segment particularly in this era in New York's history.
- Through real equity involvement, Nehemiah provides an important opportunity for upward economic mobility for this population cohort.
- The program should be fiscally helpful to the City, by reducing East Brooklyn's reliance on costly services, since single-family neighborhoods are more self-sufficient than public or subsidized housing.

- By upgrading the built environment, Nehemiah contributes to a reduction of the social tensions which are quite strong in New York's poorer neighborhoods.
- Affordable housing is one area in which New York is at a tremendous competitive disadvantage vis-a-vis other labor markets, and Nehemiah marks the beginning of inroads on this problem.
- The program is healthy for the City's body politic and body economic. Brownsville as it exists is bad for the City's bond rating and a disincentive to growth for the City's corporations.

I am inclined to be supportive for any attempts, such as the proposed legislation; to use EBC's Nehemiah program as a model for community redevelopment efforts around the country. Because I applaud the seriousness of purpose in the proposed National Nehemiah Housing Opportunity Act, I offer the following commentary on some of its provisions in the hope that the Act in its final form will capture the essential spirit (and socio-economic common sense) of EBC's own program.

COMMENTS ON NEHEMIAH BILL

Definition of "Home"

A signal feature of the Nehemiah Project of East Brooklyn Churches is the choice of the single-family, owner-occupied house as a vehicle for community redevelopment. This, in conjunction with the decision to build a large number of new homes on a series of contiguous parcels, has encouraged a concentration of proprietary interest in neighborhood improvement. I'm concerned that Section 3, paragraph 2 of the Bill defines "home" to mean any one-to-four family dwellings. Although the Bill later (Section 6(d)) prohibits leasing, the definition of "home" introduces ambiguity of intent. To the degree that rental units are incorporated in the program, the concentration of proprietary interest is diluted. Some projects seeking to encourage "affordable housing" have chosen the two-to-four family house as a vehicle, with rental income expected to make the projects more financiaable. The Bill, as drafted, does not seem to contemplate such an arrangement, but clearer language expressly to exclude such project design would be helpful.

The Bill's definition of "home" includes condominium and cooperative projects. I would regard these forms of ownership to be less desirable alternatives to fee title, if the primary objective is community redevelopment. Both condominium and cooperative ownership necessarily involve encumbering and distracting intermediary groups (e.g., co-op boards or condo associations), with administrative and financial concerns tangential and occasionally contrary to the primary purpose of a Nehemiah-type project. For example, under forms of collective ownership many repair and maintenance responsibilities are exercised by the board or association, with costs shared by the members. The range of decisions and field of individual action is thereby limited and the return of control - both in terms of personal investment and its rewards - over the family living environment is diminished. Additionally, time and energy must be devoted to group concerns with a very circumscribed scope, at the expense of larger civic issues. An empirical issue should also be noted: single-family housing has demonstrated its survivability in the face of widespread disinvestment in East Brooklyn; collective forms of ownership would be a social experiment of uncertain benefit and considerable risk in the stressful urban environments referred to in Sections 2(2), 7(e(3)) and 8(4) of the Bill.

The definition of "home" includes "any manufactured home". One of the purposes of the Bill (Section 2(3)) is "to increase the employment of neighborhood residents and to encourage the learning of homebuilding skills." Furthermore, the program selection criteria (Section 8(6)) specify "the employment of local residents in the planning, and construction or substantial rehabilitation, of homes." Since few individual projects are large enough to justify erection of a factory for the manufacture of modular housing, the inclusion of "manufactured homes" within the definition runs counter to the stated purpose and selection criterion.

The definition of "home" in Section 3(2) of the Bill seems to be a pro forma statement of scope, intended to cover low-density development. I believe the Bill would be strengthened by more careful drafting in this section, more closely matching the eligible homes to the objectives of the proposed Nehemiah housing opportunity program.

Means Test and Limited Equity Appreciation

While the means tests provided in the Bill (vide: Sections 3(3), 6(b(1)), and 7(e(5))) laudibly intends to direct the Nehemiah Housing Opportunity Fund to families of demonstrated need, it should be pointed out that such means tests are not integral to the Nehemiah Program of East Brooklyn Churches. Means tests also reduce the probability that the purpose stated in Section 2(2) of the Bill will be achieved. Rather than viewing homebuyers as "lower income families" needing to qualify for public assistance, purchasers under the Nehemiah program should be understood as partners in the community reinvestment effort, with their own equity capital at risk. An appropriate analogy for the Bill might be the Community Development Grant Program, in which the community as a whole, rather than the individual family, is the principal beneficiary. Over the years, after all, the homebuyer will be committing (in cash downpayment, closing fees and first mortgage debt) far greater amounts of funds than the \$15,000 Federal grant. That grant itself is subject to repayment under Section 5(b(4)) of the Bill. Given these conditions, the difficulty of attracting any private capital into the neighborhoods contemplated for Nehemiah Act projects, and the necessity of establishing creditworthiness for first mortgage financing, I find it hard to justify an initial means test for potential purchasers as a matter of program policy.

The creation of sound and attractive neighborhoods in areas where disinvestment has taken its toll is hardly furthered by policies which place statutory restrictions on equity appreciation. In my presentations to Nehemiah homebuyers prior to closing, as you know, I stress protection of equity by:

- a) promptness in debt service;
- b) adequacy of insurance;
- c) attention to home maintenance; and
- d) involvement in community affairs.

The rewards for the acceptance of these typical homeowner responsibilities is well-known to most American households: appreciation of equity at a rate greater than the general rate of price inflation in the economy. While the provisions of the Bill's Section 7(3(5)) were likely drafted with the praiseworthy intent of extending the benefits of the proposed act to resale purchasers and to discourage speculative profit, adverse economic results are largely foreseeable. The limitation on equity appreciation acts as an economic disincentive to responsible homeownership and would predictably lead to higher than acceptable rates of mortgage defaults, underinsurance, deferred maintenance and renewed cycles of decay in the community.

If the National Nehemiah Homeowners Opportunity Act is to follow through on the spirit and the basic economic principles of the East Brooklyn Churches Nehemiah program, the provisions of the Bill requiring a means test and limiting equity appreciation must be radically altered.

Rehabilitation

EBC's Nehemiah program involves large tract construction of new housing, using the abundant vacant land on Brownsville, East New York and other neighborhoods in the area. There stand throughout the area large, multi-family dwelling abandoned and in various stages of decay. The rehabilitation of these buildings, while an apparently desirable objective, begs the question of the cause of their abandonment in the first instance. Rehabilitating these structures without understanding and correcting the causes of the past pattern of disinvestment only invites a repetition of sorry history. Nehemiah's sponsors wisely chose to develop new single-family homes, a form of housing which had demonstrated market preference (as documented in Landauer's report to you dated November, 1982).

I understand that East Brooklyn's physical conditions are not typical of all depressed urban neighborhoods, and that several cities possess a substantial stock of low-density housing which could be rehabilitated into affordable, safe, and sanitary dwelling units. I caution, however, that patterns of disinvestment are symptomatic of fundamental economic ills. A Nehemiah program may not be the appropriate prescription in all cases. A clear answer to the question "Why will this new housing stock survive where its precursor could not?" is necessary to distinguish between wise and foolish commitments of scarce funds.

In addition to these major substantive comments, I have a variety of less critical questions about the text of the Bill. I would be happy to discuss these with you directly, with Congressman Schumer, or with his staff.

These comments are intended in a positive spirit. Nehemiah is a replicable model which, in my view, ought to be encouraged in cities across the country. It is a very simple program in its outline, and the proposed Act should seek to keep it simple. My remarks therefore have been devoted to matters which seem essential to the success of future Nehemiah-like efforts. I encourage further collaboration toward such an objective.

HPK:a



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STATEMENT
BY
MICHIGAN COMMUNITY DEVELOPMENT DIRECTORS ASSOCIATION
IN OPPOSITION TO
PROPOSED FISCAL 1986 FEDERAL BUDGET CUTBACKS IN
COMMUNITY DEVELOPMENT BLOCK GRANT,
UDAG AND RELATED PROGRAMS

The Michigan Community Development Directors Association (MCCDA) is composed of professionals who administer Community Development type programs on behalf of more than 100 General Purpose Local Governments within the State of Michigan.

And, whereas the FY '86 proposed budget plan calls for the elimination of Urban Development Action Grants (UDAG), a 10% cutback for Community Development Block Grants (CDBG), consolidation of The Farmers Home Public Facility Program with the CDBG Small Cities Program. Funding to come from a proposed shift of CDBG Entitlement jurisdictional formula dollars to non-entitlement jurisdictions. Said formula change would cut back CDBG Entitlement jurisdictional funding by 24.3% and expand the number of rural jurisdictions competing for CDBG non-entitlement Small Cities dollars.

Therefore, as practitioners in the field, MCCDA presents herewith some of the more important reasons as to why fiscal '86 and future

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CDBG/UDAG funding levels should at least not be reduced below current Fiscal '85 funding levels:

I. CURRENT APPROPRIATION LEVELS BELOW FY 1980 APPROPRIATION LEVELS

The Community Development Block Grant (CDBG), Urban Development Action Grant (UDAG) and related programs, such as the Section 108 Loan Guarantee Program, are funded at lower levels today than they were in FY 1980. On the other hand, the National Administration and the Congress, without providing additional budget authority, have expanded CDBG goals, objectives and eligible activities to fill national purpose gaps caused by funding cutbacks in other federal programs.

Also, current funding is spread more thinly since there are more eligible municipalities administering CDBG programs today than there were eligible municipalities in FY 1980.

Because CDBG, UDAG and related programs have been frozen at current funding levels since FY -82, program purposes have been expanded and more eligible municipalities share in the funding each federal fiscal year, said programs are already in a "freeze plus" situation. Further funding reductions would, therefore, spread resources too thin to appropriately respond to the program's national goals and objectives.

Therefore, it is urged that CDBG/UDAG and related programs, such as The Farmers Home Public Facilities Program be refunded during Fiscal '86 at Fiscal '85 levels. It is also urged that the current 70%-30% split for CDBG entitlement and non-entitlement jurisdictions remain as is.

II. CDBG, UDAG UNIQUE FEDERAL LOCAL PARTNERSHIP

CDBG, UDAG has been one of the earliest, most ambitious and most successful



federal/local partnerships which has ever evolved.

With the exception of the State CDBG Small Cities component, local general purpose governments receive funding and are directly accountable to the federal government in carrying out specific congressionally established national mandates and objectives at the local level.

Local governments have been treated maturely and have been trusted by the federal government to carry out said national objectives in the most flexible manner, consistent with certain federal grants and reporting requirements.

CDBG, UDAG is the ONLY direct Federal/Local Partnership mechanism in place which can quickly and responsibly implement new congressionally mandated objectives within local governmental jurisdictions which have large concentrations of population. The most recent example of such an objective was Public Law 98-8 to provide productive interim employment for jobless Americans. Another example of a new mandated congressional initiative is the Rental Housing Rehabilitation Production Program contained within Public Law 98-181.

It would, therefore, appear to be in the national interest to keep the aforementioned Federal/Local Partnership mechanism viable.

III. CDBG, UDAG PROGRAMS ENCOURAGE PRIVATE INVESTMENT AND ARE NON-INFLATIONARY

The vast majority of CDBG, UDAG activities and physical projects are designed to preserve and add value within neighborhoods and municipalities. CDBG/UDAG projects also have a track record of leveraging private capital and creating permanent jobs where they are most needed. For example, since the UDAG program began, \$3 billion in federal funds have leveraged more than \$17

billion in commitments from private-sector investors and more than \$1.6 billion from other government sources. Cumulatively, more than 1,900 active or completed projects have resulted in more than 400,000 new permanent jobs and have generated annual tax revenues of more than \$470 million.

UDAG funds have been carefully targeted to cities and urban counties that are most distressed and have been a critical factor in urban revitalization. UDAG Funding has also reduced pressures on distressed municipalities to divert general fund monies from critical essential services to be competitive in attracting private sector investment and jobs.

Michigan has been a major beneficiary of UDAG job creation projects. And while there might be a need to modify the selection process to enable certain less distressed communities to have the opportunity to fund worthwhile projects, it would be a serious mistake to cause the termination of UDAG.

IV. CDBG, UDAG BUILDS AND REHABILITATES INFRASTRUCTURE

CDBG, UDAG funding has helped to play a critical role in complementing local efforts to build and maintain stable communities. The primary use of CDBG funds has been for physical development activities, such as parks, street improvements, water and sewer lines, clearance of deteriorated structures and rehabilitation of housing.

In February of 1984, The Congressional Joint Economic Committee (JEC) issued a report projecting a \$490 billion shortfall from 1984 to the year 2000 to meet the needs for maintenance and improvements to the nation's infrastructure. Since the federal deficit inhibits a long term commitment to assist the cities and states to respond to critical infrastructure needs, it would be a devastating blow to reduce existing resources for these purposes, such as the Community Development Block Grant Program.

V. CDBG, UDAG TARGETED TO BENEFIT LOW INCOME PERSONS AND NEIGHBORHOODS

The principal beneficiaries of CDBG, UDAG are persons of low and moderate income who reside within the targeted neighborhoods where CDBG activities take place or who benefit from the types of jobs created with UDAG funding.

Many persons on fixed income have had their homes repaired and rehabilitated with CDBG funds. Abandoned school buildings have been recycled and new facilities constructed to create community centers for America's aging population. Public and human service delivery systems have been supplemented and expanded with the use of CDBG dollars.

In general, CDBG has played a very important role in assisting low and moderate income persons in maintaining an independent living life style within their own homes.

By assisting fixed and lower income households, there has been a slowing down and in numerous instances a reversal of displacement and disinvestments within many of the nation's older deteriorating neighborhoods. CDBG funded activities have helped to stem what once was a trend to abandon such neighborhoods.

CDBG, UDAG dollars invested in conserving and revitalizing neighborhoods is a lot less costly and is more effective than the massive, expensive slum clearance projects of the past.

VI. IN CONCLUSION

The CDBG/UDAG programs stemmed from a complex and lengthy history of initiatives by both the Congress and the Executive Branch to carry out broad National mandates in meeting crucial national needs and priorities, while at the same time substantially decentralize the decisionmaking

process from the federal to the local governmental level.

Over the last 10 years, CDBG has proven itself at the operating level as being an effective tool in implementing the "New Federalism" in federal-state-local relations. CDBG has also paved the way for instituting the delivery of many other federal funded programs through the Block Grant concept at both a cost savings and with increased effectiveness.

CDBG/UDAG Programs work and are still needed to meet national goals and priorities. CDBG and UDAG have already been downsized and subsequently frozen at current funding levels since Fiscal '82.

MCDDA, therefore, strongly urges that CDBG/UDAG Programs continue to have budget authority at the same funding levels which have been in effect for each of the last four federal fiscal years and be allowed to continue the roles assigned to said programs by the Congress.

Respectfully,

Michigan Community Development Directors Association

by 

Sidney Blitz - Chairman

February 21, 1985

Retirement Housing Foundation

February 8, 1984

Congressman Fernand J. St. Germain
Room 2108 Rayburn House Office Building
Washington D.C. 20515

Dear Congressman St. Germain:

I am writing to express deep concern about the apparent plans of the Administration to end current federal rural housing programs and transfer responsibility for rural housing to the Department of Housing and Urban Development (HUD). The current programs, administered by the Farmers Home Administration (FmHA) have assisted over half a million rural families in gaining decent housing. However, the problems of substandard persist in in rural America. The demise of this effort would almost certainly deny the opportunity for over two million rural families, still living in substandard housing, the same chance.

There are several compelling reasons to continue the current programs. Transferring responsibility for rural housing delivery to HUD means transferring federal housing assistance from a local County Office, located in the community, to a HUD office located in a more remote big city. The plan would bring an end to the provision of essential local assistance to the rural elderly and rural families in need. Rural builders, who use the FmHA programs, unlike their urban counterparts, are often small businesses without travel budgets and staff to go to HUD offices for their loan funds.

Eliminating the direct federal lending provided by FmHA virtually assures a dramatic reduction in housing production and critical job creation in rural areas. Because there are over 500 rural counties with no federally chartered Savings and Loans, and, because rural areas have only 17% of the nation's savings, there is a shortage of money available in rural areas to finance home construction. Rural areas depend on FmHA credit to provide housing for low and moderate income persons. In fiscal 1984, FmHA assisted in the production of over 80,000 units which were responsible for the creation of over 100,000 jobs. Millions of dollars were spent by builders to buy construction materials in local builder's supply houses. All of that activity would be lost.


Continuing to provide the opportunity for decent housing for low and moderate income rural people should be the goal of federal housing policy. A plan to merge all rural housing needs into the HUD assisted housing programs is flawed on at least two points: First, the resources available are sorely inadequate, HUD housing programs having been reduced by 2/3's since fiscal 1980 and a requirement that 20-25% of HUD assistance go to rural areas having been dropped; second, rural housing problems are not simply a smaller version of those facing urban areas. Rural areas have over 50% of the nation's units with inadequate plumbing. Over 90% of the units without adequate drinking water or an acceptable means of wastewater disposal are located in rural areas.

Because there is not enough housing stock available, rural housing cannot, in the short term, be relegated to the HUD assistance program. In the long term, requiring an even split of HUD funds for new construction between urban and rural areas, will provide rural areas with a volume and level of assistance far below that provided by the current FmHA program. It will also serve to increase urban programs because of an effective budget reduction there.

Vital rural communities are essential to the continued health of agricultural production who depend upon them for trade and for the supplies of manpower essential to their crops. HUD is the Department of Housing and URBAN development. Its requirements and regulations are geared to URBAN areas with substantial staff and data bases. Its attitude toward rural people and rural development problems demonstrate an URBAN bias; its suggested solutions to problems are URBAN; many of its programs require a private lender; and, most significant to rural communities, it does exist in the rural community.

I strongly urge you to use your position to bring attention of the Administration to the housing needs of rural America and to advocate for the continuation of the successful rural housing programs of the Department of Agriculture through the Farmers Home Administration.

Sincerely,


 Clark Harshfield
 Executive Director

RIVERSIDE AVONDALE

P R E S E R V A T I O N , I N C .

March 20, 1985

The Honorable Henry Gonzalez
Chairman, Housing & Community
Development Subcommittee
2453 Rayburn Office Building
Washington, D.C. 20515

Dear Honorable Representative Gonzalez,

As a representative from San Antonio, you undoubtedly appreciate the merits of preserving local history, architecture and culture. Through federal encouragement of historic preservation over the last two decades, cities throughout the nation have come to understand the value of their unique cultural resources. Jacksonville, as well as your city of San Antonio, is such a city.

The Riverside-Avondale area is one of Jacksonville's oldest areas and one of considerable architectural significance. Though the area began to decline following World War II with the growth of Jacksonville's suburbs, it has made great strides to revive much of its former grace and elegance. Beautiful homes, many a tribute to local architects, once again display their striking features. Business districts are witnessing a return of neighborhood shoppers. The sixteen parks in Riverside-Avondale with their ancient live oaks, magnolias and dogwoods are havens of activity.

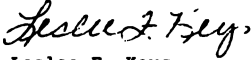
This renaissance has come about, in part, through two important federal programs. Community Development Block Grant (CDBG) funds provided matching grant monies for historic and architectural surveys of the area. These enabled RAP to have completed a National Register of Historic Places nomination. With such a recognition in place, the Investment Tax Credits (ITC) available under the Economic Recovery Tax Act (ERTA) can continue the revitalization by providing incentives to renovate structures otherwise not economically desirable.

Both the CDBG program and the Investment Tax Credits (ITC) are threatened under the proposed budget package. These programs have provided great assistance to Riverside-Avondale and, undoubtedly, to hundreds of similar neighborhoods throughout the nation. Please allow these neighborhoods to continue their revitalization.

The success of these programs can be seen through revenues being added to the federal, state and local treasuries. Increased property taxes and jobs being created to respond to the need for preserving our housing stock would not be possible without the incentives these programs provide.

Please support the full funding of CDBG and the continued provision for the ITCs. They are important to the preservation of Riverside-Avondale.

Yours truly,



Leslee F. Keys
Executive Director

cc: Richard Bowers, Director
City of Jacksonville
Department of Housing & Urban Development

Thomas K. Purcell
Chairman of the Board
Riverside-Avondale Preservation, Inc.

LFK:pm

**ST. MARGARET'S
HOUSE**

49 Fulton Street, New York, NY 10038 (212) 766-8122

Nancy B. Serpico Administrator

April 18, 1985

The Honorable Henry B. Gonzalez
Chairman, Subcommittee on Housing and
Community Development
Committee on Banking, Finance and Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

On March 6, your Subcommittee heard testimony from Mr. Randall Smith on behalf of an organization entitled "Senior Citizens Fighting Mandatory Meals". Mr. Smith, who is a resident of St. Margaret's House, indicated that his organization is made up of other residents of St. Margaret's House.

In both his prepared remarks and his oral testimony, Mr. Smith made several statements concerning the operations of St. Margaret's House and, most especially, the manner in which its meal program functions. We are concerned that the picture painted of St. Margaret's by Mr. Smith does not in all aspects accurately reflect the reality of St. Margaret's, its tenants and the services made available to those tenants, including the meal program. We, therefore, should like to request that this letter and the accompanying materials be made a part of the record of the Subcommittee's hearings, preferably immediately following Mr. Smith's testimony.

Having the residents take at least one meal a day in a community dining room has long been recognized as an essential component of congregate, elderly living. The congregate concept attempts to involve the resident more actively in the community of all the residents, providing both social and physical support to the individual resident with the goal of sustaining the psychological and physical health of the resident as long as possible. Too often the elderly withdraw into themselves and fail to provide for their minimal needs, such as nutritious meals, unless a support system such as that provided in a congregate facility is present. While all housing projects for the elderly are not and need not be congregate and all the elderly do not and need not care for congregate living, it is an accepted mode of providing housing for the elderly and one to which many of the elderly subscribe and should have available.

**ST. M
H**

HUD has long recognized the validity of the congregate approach and has sanctioned it in both the present 202 program, which was authorized in 1974, and the earlier program originally authorized in 1959. It has also sanctioned, in connection with congregate projects, the requirement that each tenant pay for one meal a day, because it recognizes, as do most other impartial observers, that most meal programs could not survive without this assured patronage. HUD has also indicated that if sponsors were precluded from imposing the meal-purchase requirement, "it will likely have to prohibit central dining facilities" in most new projects since they would no longer be financially feasible.

All tenants, of course, are informed prior to taking up residence of the meal-purchase requirement. This is required by HUD and common sense and equity. Whether or not it is because the tenants in these projects have exercised this choice, it is apparent that a large majority of tenants in those projects with mandatory meal programs are satisfied with their programs.

In its report, B-217752, released in early March, the General Accounting Office surveyed all HUD Section 202 projects to determine which of those had mandatory meal programs and to determine how those programs operated. Among its key findings was that 70% of the tenants in these projects like having the meal program in their project and 80% would not want to withdraw from their program, even if permitted to do so. Based on the satisfaction of such a large proportion of the tenants in these projects and the fact that reduced participation could undermine the feasibility of those programs, GAO has stated that it does "not believe legislative or regulatory action is currently warranted, nor would it be effective, in addressing the personal preference issues that residents raised".

The situation that GAO has identified in those 202 projects around the country which have mandatory meal programs is most similar to that which exists at St. Margaret's. Mr. Smith represents only a small minority of St. Margaret's residents--at present approximately 20, we understand. On the other hand, a large majority of St. Margaret's residents actively support the program. Last fall, after Mr. Smith and a few other tenants instituted a suit against the meal program, St. Margaret's House Resident Council circulated petitions amongst the residents asking them to support the program. 197 of 289 residents signed this petition, which was circulated in Spanish, English, and Chinese. These are the three predominant languages spoken by St. Margaret's residents. I am enclosing a copy of one petition in each language with the signatures thereon. All the other petitions are, of course, available if you desire to see them.

The action of the residents in circulating this petition and obtaining this large number of signatures was done entirely without our prior knowledge. This strong resident support has continued, as evidenced by the recent letter to you from Charlotte R. Leyden, President of the Resident Council, who states that, "We are wholeheartedly in favor of the Mandatory Meal Program and would be severely handicapped should it be discontinued." I hope that you will include Mrs. Leyden's letter in the Subcommittee's hearing record, as it represents the feeling of the majority of the residents of St. Margarets.

In addition, a letter was written on March 23 to Senator Moynihan by Ruth E. Irving, Chairman of the Food Committee for the Resident Council of St. Margaret's stating that, "It would be a great hardship to every resident if this program was discontinued." I am enclosing a copy of Mrs. Irving's letter and request that it also be included in the hearing record.

St. Margaret's House is located in lower Manhattan and contains 250 units. It opened in the fall of 1981, having been developed under the sponsorship of Trinity Church. The project was developed as a congregate facility, including the requirement that each tenant purchase one meal a day. This decision was based on the experience of the sponsor with two other projects which did not have meal services and was approved by HUD.

St. Margaret's provides two meals a day, seven days a week. Its charge for one meal per day is \$110 a month or \$3.67 a meal. This price has not changed since the project was opened. Since its inception, the meal program has operated with a deficit which has been made up by the sponsor, Trinity Church.

A tenant may eat his required meal either at lunch or at dinner (on Saturday and Sunday, brunch is served rather than lunch). Each lunch and dinner provides a soup, a choice of three entrees at dinner or two at lunch, salad bar, a choice of desserts, and beverages. The menus are prepared under the supervision of a dietitian and contain a great degree of variety, both from day to day and week to week. Enclosed is a copy of a recent week's menu.

In addition to the meal program, St. Margaret's offers a wide array of other services and activities. These include a large variety of group activities, health clinics, educational programs, and other social programs. These programs are staffed by a combination of paid and volunteer workers under the supervision of a Director of Human Resources and a Director of Social Services. The two directors,

trained as social workers, feel very strongly that the mandatory meal program is an essential aspect of the total program they help to provide to the residents. Enclosed is a letter, dated April 17, 1985, from these directors to you, setting out their views.

I should like now to deal with some of the points raised by Mr. Smith in both his written and oral presentations to the Subcommittee. Mr. Smith makes a major point of the so-called excessive cost of the meal program, citing the availability of other meal sources both publically assisted and private. Yet, he never spells out whether the publically assisted sources are readily available, nor does he indicate what the cost of a meal, comparable to that served at St. Margaret's, would be if served at a private restaurant in the vicinity of St. Margaret's.

Many of our tenants are physically incapable of traveling the many blocks that would be necessary to reach a Senior Citizens Center to obtain a subsidized meal, and most of them could not afford the cost of meals in private restaurants in the vicinity of the project. We have surveyed the charges of nearby restaurants and none of them can come close to matching our per meal cost for a comparable meal. In most instances the cost of just a sandwich and beverage is higher.

Mr. Smith alleges that the cost of the meal program is excessive in relation to the incomes of the residents of St. Margaret's. He points out that the meal charge in many instances is more than the monthly rent paid by the tenant. That is a subsidized rent, of course, and it is subsidized precisely to permit a low-income elderly person living in a 202 project to have sufficient funds left over after rent is paid to cover the cost of food and other necessities. We recognize that those who reside in St. Margaret's are of low income. In fact, this is why Trinity Church subsidizes the shortfall and why the meal charge is reduced to those tenants whose incomes are very low, in order to permit them to have a certain minimal amount left over, after their rent is paid, for other living costs.

Mr. Smith makes a big point of the fact that the cost of meals at St. Margaret's includes the cost of preparing and serving that meal. This he contends drives the cost of that meal above what it would cost an individual buying and preparing the food himself. It is certainly true that it does cost to have a staff to prepare and serve the meals. However, the food cost itself is substantially less than if an individual was attempting to buy small portions for his or her use, and it is highly unlikely that anywhere near the variety of food provided under the meal program could be purchased at any significant savings by an individual.

Mr. Smith contends that the meal program is incompatible with the heritage of many of the residents, especially those of Chinese or Hispanic descent. He contends that these residents are not used to eating American cafeteria-style meals and that it is too late in their lives to change. The best response to this concern is that it is apparently Mr. Smith's and not one that the vast majority of our residents who are of Chinese and Hispanic descent have, as evidenced by the numerous residents of those heritages who signed the petitions mentioned earlier.

Mr. Smith reiterates, in his written statement, the argument made in his law suit against St. Margaret's, that the mandatory meal program is a violation of the Sherman Anti-Trust Act. We, of course, strongly disagree that this type of arrangement, long sanctioned by the Federal Government, is the type of activity meant to be prohibited by the Sherman Anti-Trust Act. His follow-up contention that a meal program, such as that offered by St. Margaret's, is for the financial convenience of the landlord totally flies in the face of the facts and realities of the situation. St. Margaret's is a nonprofit organization that exists solely for the purpose of providing congregate housing for the residents of the project. There is no financial benefit to it. In fact, it must look to outside subsidies to continue the meal program, as it is now constituted.

In his oral testimony, Mr. Smith repeated many of the assertions made in his written statement and, in addition, brought up some new issues. He attacked the GAO Report, apparently because it does not bear out his contentions. As is evident from their Report, GAO endeavored to survey the total universe of 202 projects with mandatory meal programs. While that survey solicited opinions from project managers as he notes, it also solicited the opinion of a stratified, random sample of 888 residents, out of the approximately 6,900 living in 202 projects with mandatory meal programs. 699 or 79% responded and they overwhelmingly supported the mandatory meal programs in their projects. While Mr. Smith does not like the results, they are essentially parallel to our experience at St. Margaret's, where only 20 of our 289 residents have indicated their dissent from the meal program. Actually, that is only 7%, substantially less than the 17% found in the GAO survey.

Mr. Smith attacked the financial operation of the meal program, the quality and nature of the food served and the rules governing the program. We feel that the financial arrangements we have entered into are reasonable, with the food services contract being competitively let. As a result there has been no increase in the meal charge since the project opened in 1981. Of course, the food service company makes a profit on its services; if it did not it would soon go out of business.

We believe that the variety of the food that is offered our residents is as good as one can find in any good restaurant. Each dinner provides a choice of three entrees and it is seldom that a tenant is not able to exercise that option unless he or she arrives just prior to closing. Seconds are available and exchanges and substitutions are permissible. In addition, special dietary needs brought to our attention will be met if at all possible.

We have also endeavored to deal with the problem of those tenants who are unable to use their meal tickets because of being away or hospitalized. When we opened we were advised by the HUD official responsible for supervising our project not to make any exceptions to the meal requirement, because of the possibility of not being able to control the exceptions and thus not being able to maintain the financial feasibility of the meal operation. Since then we have gradually softened that policy. Initially, in 1983, the policy was changed to permit a missed meal ticket to be used anytime within the succeeding three days. That has now been expanded to the month in which the meal is missed. Furthermore we have established a policy of giving credit for meals missed for five consecutive days or more for anyone confined to a hospital and for those on vacations and who will be absent for 15 days or more.

I should like to deal with just one more point raised by Mr. Smith. This issue deals not with the operation of the meal program but, instead, with the basic initial operation of the project and the extent to which it was marketed in an affirmative fashion to all potential applicants, regardless of race, creed, national origin, etc. Mr. Smith gives the impression that St. Margaret's started out favoring, in Mr. Smith's words, "elderly people from the Trinity Church, but (we) didn't have any Blacks, Puerto Ricans or Chinese." He then indicates that St. Margaret's was taken to Court and a settlement of that suit forced us to open up the project. It is true that a suit was brought, but it is not true at all that those tenants selected prior to the settlement of the suit did not reflect a broad open-occupancy policy.

In accordance with HUD requirements, the availability of the project was advertised in minority language publications. For those of Hispanic descent, an advertisement was placed in a leading Spanish-language newspaper, EL DIARIO. Unfortunately that newspaper, contrary to our instructions, published the ad in English. As a result a suit was brought seeking to have us start the initial occupancy effort over. A complete restart was resisted by us because about 4,000 people responded to the first set of advertisements, but we did agree to hold back 100 units and we readvertised those units with the proper language ad in EL DIARIO. Incidentally, it was from this readvertisement and unit hold-back that Mr. Smith, obviously not in need of a Spanish language newspaper, got his apartment.

The occupancy of the initial 150 units was approximately 55% White, non-Hispanic; 32% Asian; 7% Black non-Hispanic; and 5% Hispanic, both Black and White. As of October 31, 1984, our occupancy was approximately 45% White non-Hispanic; 32% Asian, non-Hispanic; 12% Black, non-Hispanic; and 10% Hispanic, White, Black, or Asian. As can be seen, the occupancy has not changed significantly, although there has been somewhat of a shift from White, non-Hispanic, to Hispanic.

We hope the information that we have supplied in this letter will help you to form a more rounded view of congregate housing for the elderly and the appropriateness of mandatory meal programs in connection with such housing, in general, and with respect to St. Margaret's, in particular. We believe strongly that there is a definite place for congregate facilities such as St. Margaret's in the panoply of programs provided to meet the needs of the nation's elderly especially those of limited means. As long as these projects make it fully clear to prospective tenants that they will be required to participate in a meal program and those programs are conducted under supervision of the Department of Housing and Urban Development to assure that they are administered in a reasonable fashion at the lowest possible meal cost, we believe that they should be allowed to continue.

We urge that you reconsider the proposed prohibition, contained in Section 106(b) of H.R. 1, on mandatory meal programs in future 202 projects. Certainly if you and the Subcommittee feel that further standards are necessary for the proper administration of such programs, we urge that that direction be provided to HUD. But, the abolition of a long-standing and successful practice, as attested by the GAO's Report, should not be undertaken.

And most definitely, we urge that the proposal, to have existing projects with these programs changed to voluntary participation, not be enacted unless HUD is provided the financial means to assure the continued financial feasibility of those projects and their meal programs. Otherwise the residents of St. Margaret's and of the almost 100 other 202 projects with mandatory meal programs will most likely find themselves without the daily meal in a community setting, which they understood would be there when they moved into the project.

Thank you for this opportunity to present our views and recommendations. If we can supply you or the Subcommittee with further information, please do not hesitate to call on me.

Sincerely,

Nancy B. Serpico
Nancy B. Serpico
Administrator

Enclosures

October 23, 1984

TO WHOM IT MAY CONCERN:

We, the undersigned residents of St. Margaret's House, 49 Fulton Street, New York City, wish to state our wholehearted support of the food service now in effect in this residence. Our major reasons for the need to continue this program are as follows:

1. Participation in the food program was an integral part of the lease, fully described and understood, which residents signed before occupancy.
2. For the reasonable cost of only \$5.67, we can select a five course balanced and nutritious meal daily.
3. The meal releases us from a large part of the burden of shopping and cooking.
4. The once a day meal is a necessity for our disabled residents, single men and women unable or unwilling to shop, cook and clean up after eating.
5. Eating in the beautiful Dining Room at St. Margaret's has given us the opportunity for making friends and communicating with neighbors which is of especial significance to those of us without relatives.

We urge the continuance of this life-extending beneficial service.

Name	Apt. No.	Name	Apt. No.
Patricia DeChalaya	5F	Ruth Jones	4-A
Margaret Volpe	15N	B. C. Benner	11 B
Res. Pappalardo	14L	Ada Heaney	13 C
Margaret Marcy	6K	Grace Davis	Ring 7M.
Mary Jo Christa	8E	Doris A. Ring	7M.
Margaret Dantagata	14W	B. Lynt	14 G
Salvador Cammas	7H	Benner	4-0
Doris A. Hill	14N	Martha Kissinger	10K
Charles Goldberg	2K	Madeline Benner	16M
James J. Quinn	8J	Bridget Fisher	5F
A. Victor	9C	Carmine Volpe	15N
Wanda A. Smith	3C	E. Woods	16E

10/23/64

啟者：

我們是紐約市布頓街49号聖瑪嘉烈大廈的居民，現簽名於下，未表達我們對本區膳食服務計劃的熱烈支持。其理由如下：

1. 參予膳食計劃是構成租約的必要部份；也是居民於簽約入住前所已清楚了解的。
 2. 我們只付出三元六角七分(3.67)就可選擇營養相稱而有五種米的餐。
 3. 膳食計劃，使我們減免上市買菜和煮食的繁重工作。
 4. 對本區殘障居民，單身男女，不能或不願上市場，煮菜和洗盤碗者，每日一餐是極為需要的。
 5. 在聖瑪嘉烈的華麗餐廳用餐，可提供我們認識朋友以及與鄰居交誼的機會，對沒有親友者，更具特別重要意義。
 6. 我們華人的要求是：有中國廚師，每週至少有一或二次中餐。
- 因此，我們促請繼續維持此一有擴大生活利益的膳食服務計劃。

姓名 (Name)	樓宇 Apt. #	姓名 (Name)	樓宇 Apt. #
Chung Shun Chin	17N	Peggy Jones	
Shun Eder Chin	17N	C. Beresty	9L
Kuo Gon Wu	16F	Jane Tapscott	17A
Yin Jing Wu	16F	Elvira Cramer	14C
Seh Teo Koo	11L	William Reed	20B
Ron Guan Teai	18F	Isabelle Colla	18C
James J. Quinn	85	TOD 49A	4F
Blanche Waldbaum	11N	Lin Song Chin	86
Larry Boyden	6A		
Wilma Talman	17B		

Nombre	No. Anto	Nombre	No. Ant.
Maria Vezcamonde	5H		
Ines Ribentia	19J		
Marisa Zapata	apt. 5C		
Ricardo Salas	13-M		
Adolfo Carreras	7H		
Luis Gonzalez	4-B		
Rico Salas	14 G		
Isabel Marquez	2L		
Carmen Rodriguez	7K		

St. Margaret's House Resident Council
49 Fulton Street
New York, NY 10038

March 26, 1985

The Honorable Henry Gonzalez
United States House of Representatives
House Committee on Banking
Finance and Urban Affairs
Subcommittee on Housing

. 2

Dear Mr. Gonzalez:

I have been given the opportunity to read the statement of Randall Smith "on behalf of the Senior Citizens Fighting Mandatory Meals, 49 Fulton Street, New York, New York." An uninformed reader would understandably get the impression that Mr. Smith speaks for most if not all of the residents of 49 Fulton Street (St. Margaret's House). This is overwhelmingly untrue. As president of the Resident Council of St. Margaret's I can assure you, and have evidence to prove, that we are wholeheartedly in favor of the Mandatory Meal Program and would be severely handicapped should it be discontinued.

Before presenting to you what seems to me to be the most valuable argument in favor of the meal plan, please let me say that although we are in our retirement years we still have a healthy respect for the law. We consider the lease which we signed, with full knowledge and explicit preinformation, as binding. Any cavalier attitude toward such a commitment is unthinkable.

No doubt you are aware of the fact that a large number of our residents are in wheelchairs or on crutches or walkers. To picture them easily getting to a shopping center, or a "Senior Center" or to a restaurant (all very expensive in this area) is unrealistic. It would have been impossible on many days this past bad winter. Cooking a full meal is very difficult for the handicapped. Many men (especially those who have recently lost their wives) just don't know how. And yet, a nutritionally balanced meal according to all experts, is essential to those in advancing years.

To refute the statements made to you in a document twelve pages long would take twelve pages for proper reply. I am, however, prepared and willing to do so if called upon.

...../2

Instead, may I point out what I am certain is the most compelling argument in favor of the meal plan. That is the opportunity it affords us to "meet and greet" our fellow residents. Were you to refer only to, say, the Chinese who have come to St. Margaret's recently, how much better it is for them to learn about the customs of this new country by mingling with us in our dining room than to be closed in their apartments. For those of us with no kith or kin, the dining room offers the chance to make friends and develop a new family.

Please consider this point of view and weigh it against the self serving reasoning of those who have approached you on this subject.

Sincerely yours

Charlotte R. Leyden

Charlotte R. Leyden
Council President

CRL:h1

March 23, 1965

The Hon. D. P. Moynihan
733 Third Avenue
New York, N. Y. 10017

Dear Senator Moynihan

I Live in an apartment House for Senior Citizens and Handicapped People.

We have a mandatory meal program which entitles us to one well balanced meal a day.

This plan is a great service to all of us. We don't have to do a great deal of shopping or cooking since we are served a full five course lunch or dinner. We have the privilege of eating in the middle of the day or in the evening.

It would be a great hardship to every Resident if this program was discontinued.

I am writing this letter on behalf of all the Residents and as Chairman of the Food Committee.

Sincerely yours,

Ruth E. Irving

Ruth E. Irving

NUTRITION MANAGEMENT SERVICES COMPANY

WEEK 11
FACILITY: ST. MARGARET'S HOSPICE

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
BUNCH	LUNCH	LUNCH	LUNCH	LUNCH	LUNCH	BUNCH
Eggs to Order	Beef Bouillie Soup	Potato Leek Soup	Chicken Rice Soup	Vegetable Soup	Hamletton Clam	Eggs to Order
Pancakes	Seafood Macballe	Spinach Potatol	Broccoli and Cheese	Liver and Onions	Chauder	Pancakes
French Toast	Salmon Steak	Alfredo	Grilled	Cog Au Vin	Cheese Strata	French Toast
Ham	Battered Bouillon	Chicken A L'Orengo	Pepper Steak	Roasted Potatoes	Baked Cod Fish	Ham
Sausage	Baked Potatoes	Heard Potatoes	Rice	Redskin Potatoes	Ham	Sausage
Bacon	Baby Carrots	Rice	Corn on the Cob	Stir-Fry Vegetables	Assorted Desserts	Bacon
Assorted Jellies	Collard Greens	Assorted Vegetables	Carrots	Assorted Desserts	Assorted Desserts	Assorted Jellies
Fresh Fruit	Assorted Desserts	Assorted Desserts	Assorted Desserts	Assorted Desserts	Assorted Desserts	Fresh Fruit
Coffee/Tea/Milk	Sandwiches	Sandwiches	Sandwiches	Sandwiches	Sandwiches	Coffee/Tea/Milk
	Saled Bar	Saled Bar	Saled Bar	Saled Bar	Saled Bar	
	Juice	Juice	Juice	Juice	Juice	
	Coffee/Tea/Milk	Coffee/Tea/Milk	Coffee/Tea/Milk	Coffee/Tea/Milk	Coffee/Tea/Milk	
DINNER	DINNER	DINNER	DINNER	DINNER	DINNER	DINNER
Egg Soup	Soup de Jour	Soup de Jour	Soup de Jour	Soup de Jour	Soup de Jour	Beef Barley Soup
Chicken and	Witchell Pillets	Witchell Pillets	Witchell Pillets	Witchell Pillets	Witchell Pillets	Fresh Ham
Broccoli	Black Bean Soup	Black Bean Soup	Black Bean Soup	Black Bean Soup	Black Bean Soup	Flounder Ball Ups
Salmon Steak	Mac/Meat/Chicken	Mac/Meat/Chicken	Mac/Meat/Chicken	Mac/Meat/Chicken	Mac/Meat/Chicken	Chicken
Grange Chicken	Baked Fish	Baked Fish	Baked Fish	Baked Fish	Baked Fish	
Rice	Potato Puffs	Potato Puffs	Potato Puffs	Potato Puffs	Potato Puffs	Yams
Steamed Cabbage	Steamed Cabbage	Steamed Cabbage	Steamed Cabbage	Steamed Cabbage	Steamed Cabbage	Rice
Mixed Vegetables	Mixed Vegetables	Mixed Vegetables	Mixed Vegetables	Mixed Vegetables	Mixed Vegetables	Carrots
Assorted Cakes, Pies	Assorted Cakes, Pies	Assorted Cakes, Pies	Assorted Cakes, Pies	Assorted Cakes, Pies	Assorted Cakes, Pies	Mac Beans
and Jello	and Jello	and Jello	and Jello	and Jello	and Jello	Assorted Cakes, Pies
Saled Bar	Saled Bar	Saled Bar	Saled Bar	Saled Bar	Saled Bar	and Jello
Juice	Juice	Juice	Juice	Juice	Juice	Saled Bar
Coffee/Tea/Milk	Coffee/Tea/Milk	Coffee/Tea/Milk	Coffee/Tea/Milk	Coffee/Tea/Milk	Coffee/Tea/Milk	Juice
						Coffee/Tea/Milk

ST. MARGARET'S HOUSE

49 Fulton Street, New York, NY 10038 (212) 766-8122

April 17, 1985

The Honorable Henry B. Gonzalez
United States House of Representatives
Washington, D.C.

Dear Congressman Gonzalez:

This letter is written in response to testimony given before the United States House of Representatives, House Committee on Banking, Finance and Urban Affairs, Subcommittee on Housing on March 6, 1985.

As social workers, we are committed to helping individuals sort out the best options for themselves. In our admission process, we make it clear that St. Margaret's House is more than an apartment building. Rather, it is a supportive community for senior citizens and disabled residents committed to enhancing the quality and duration of independent living. The mandatory meal program at St. Margaret's House secures the congregate dimension which forms the core of our program and the heart of our community.

We believe that individuals should have choice. Not everyone is comfortable with the closeness a community provides. Particularly in New York City where a family may live for 20 years without knowing the names of their neighbors, moving to a congregate facility may not be a good fit. A congregate facility such as St. Margaret's House is one of many choices of life styles available. Just as we believe individuals should have a choice of facilities offering a range of services, we believe that congregate facilities with mandatory meal programs should be an option available to those who desire it and qualify.

In a recent survey of our population from 11/1/83 to 10/31/84, the average age was 70.4 years. Sixty five of the 250 SMH households had incomes below the Federal Poverty Guidelines for that period. Research has shown that the elderly living alone are vulnerable to poor nutrition which has an adverse impact on health. To shop in

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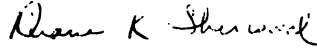
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the immediate area where prices are highly inflated by the South Street Seaport Restoration, means that fixed income food budgets simply cannot be stretched to provide consistently nutritious meals across a month period. Fifty eight percent of our population was found to have significant medical problems or disability. The less expensive grocery stores are not within walking distance for those with disabilities, illness or frailty. The mandatory meal program provides a support which is non-stigmatizing because everyone - young or old, able bodied or not, well off or poor - participates.

The social opportunities our dining room provides counters the tendency toward isolation which has also been shown to be associated with a lack of well-being among elderly. Furthermore, SMH is a unique housing facility in regard to its ethnic and racial mix. Thirty three percent of our population is Chinese, 13% Black and 10% Hispanic. Among our nearly 300 residents, twenty languages are spoken. Our mandatory meal program serves a crucial integrative function as individuals who would never be brought together without the mandatory aspect of our program find friends and acquaintances.

We are a new facility pioneering new solutions to old problems in housing for the elderly. Our administration welcomes anyone interested to visit, speak with residents and staff and observe first hand our unique Community.

Sincerely,



Diane K. Sherwood, M.S.W., C.S.W.
Director of Human Resources



Richard F. Pease, M.S.W., M. Div.
Director of Social Services

DKS:h1

SENIOR ADVOCATES
LEGAL AID SOCIETY OF SAN MATEO COUNTY

PETER H. REID
EXECUTIVE DIRECTOR

298 FULLER STREET
REDWOOD CITY, CALIFORNIA 94063
TELEPHONE (415) 368-8822

March 5, 1985

Honorable Henry Gonzalez
Sub-Committee on Housing and Community
Development of the Committee on Banking
Finance and Urban Affairs
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D. C. 20515

Re: H.R. 1
Mandatory Meal Programs in
Federally Subsidized Projects
for the Elderly

Dear Congressman Gonzalez:

I am writing this letter on behalf of Illene Birkeland, Elmer Stubblefield, Larry Roberts, Mildred Simons and Bernadine Thompson, all of whom are low income senior citizens who reside at the Rotary Plaza, which is located at 433 Alida Way, South San Francisco, California, and which is a multi-family housing project for the elderly that is subsidized under the Section 236 Program pursuant to 12 U.S.C. 1715z-1. Tenants at the Rotary Plaza are forced to pay mandatory meal charges of \$70.00 per month as a condition of occupancy regardless of their income or financial circumstances.

My clients support H.R. 1, Section 106(b), which would require the phasing out of existing mandatory meal plans in Section 202 projects. My clients urge you to introduce an amendment to H.R. 1, Section 106(b) which would extend the prohibition of mandatory meals to housing projects for the elderly which are subsidized under Section 236 of the National Housing Act.

My clients oppose the mandatory meal charges to which they are subjected for a variety of reasons. My clients are forced to subsist on low incomes consisting of Social Security and/or Supplemental Security Income (SSI) benefits and, thus, the mandatory meal charges work a financial burden on them. My clients object to the poor quality of the meals offered under the mandatory meal program. Some of my clients also object to the mandatory meal program because the meals provided thereunder fail to satisfy their dietary and medical needs. Finally, many elderly tenants regard the mandatory meal charges as an offensive threat to their independence and a violation of their constitutional rights to privacy and assembly.

It should be pointed out that this office is representing low income elderly tenants who are challenging the mandatory meal policy of the United States Department of Housing and Urban Development (HUD) and the Rotary Plaza's collection of mandatory meal charges in Birkland et al. v. Rotary Plaza et al., Case No. C 84-2026 SW (United States District Court for the Northern District of California, filed April 13, 1984). Discovery conducted in the Birkland case has revealed that neither HUD nor the owners or management of Rotary Plaza have either clearly articulated or uniformly applied policies concerning when and how tenants can be excused from mandatory meal charges for medical, financial, or dietary reasons.

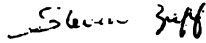
It should be pointed out that the problem of mandatory meal charges is widespread. Mandatory meal charges adversely affect many elderly tenants of federally subsidized projects. According to HUD's own survey, there are at least seven (7) housing projects for the elderly with mandatory meal programs in the San Mateo County area. (Memorandum from Janet Browder to Jonathan Strong, which is attached hereto as Exhibit 1.) ^{1/} Apparently, both a Section 236 project and a Section 202 project in San Mateo charge elderly tenants mandatory meal charges of \$150.00 per month for two meals per month. (Memorandum from James Tahash to Janet Browder, attached hereto as Exhibit 2.) Finally, HUD has failed to monitor or to require prior written approval of increases in mandatory meal charges as is required by the Regulatory Agreement under the Section 236 program. (Memorandum of November 30, 1984 from James J. Tahash to Keith Axtell, attached hereto as Exhibit 3.)

It should be pointed out that over the past few years this office has frequently received complaints from elderly tenants at a number of federally subsidized projects for the elderly in San

^{1/} All exhibits attached hereto were obtained by the office through discovery in the Birkland case.

Mateo County concerning the hardship and problems engendered by mandatory meal charges.^{2/} For all of the foregoing reasons, this office urges your support of legislation prohibiting the imposition of mandatory meal charges in all federally subsidized housing projects for the elderly - including Section 236 projects for the elderly.

Sincerely,



STEVEN ZIEFF
Attorney at Law

SZ:jr
Encls.

2/ This office has received such complaints from tenants at Crane Place (a Section 221(d)(3) project), Park Towers (a Section 202 project), Bonnie Brae Terrace (a Section 236 project) and the Rotary Plaza (a Section 236 project).



U.S. Department of Housing and Urban Development
San Francisco Regional Office, Region IX
450 Golden Gate Avenue
P.O. Box 36003
San Francisco, California 94102

MEMORANDUM FOR: Jonathan Strong, Trial Attorney, Office of Litigation, GT 112
FROM: Janet Browder, Supervisory Loan Management Officer, 9HML(B)
SUBJECT: Project Number: 121-44804
Project Name: Rotary Plaza
Location: South San Francisco, CA

This is in response to your memorandum of July 26, 1984 requesting information regarding HUD subsidized elderly projects in San Mateo County. All projects with central dining facilities have mandatory meal service and none received outside funding other than the meal charges paid by the tenants. Listings of projects with and without food service are as follows:

Elderly Projects with Central Dining Facilities and Mandatory Food Service

Park Towers
700 Laurel Avenue
San Mateo, CA 94401
Section 202
200 Units
2 meals per day, 7 days per week
at \$150 per month
Loss \$6,744

Bonnie brae Terrace
2400 Carlmonth Drive
Belmont, CA 94002
Section 236
164 Units
2 meals per day, 7 days per week
at \$150 per month
Profit \$14,562

Lytton Gardens I
656 Lytton Avenue
Palo Alto, CA 94301
Section 236 and Section 8
220 Units
7 meals per week at \$115 per
month
Profit \$8,820

Lytton Gardens II
649 University Avenue
Palo Alto, CA 94301
Section 202 and Section 8
100 Units
7 meals per week at \$115 per
month
Profit \$49

Adlai E. Stevenson
455 East Charleston Road
Palo Alto, CA 94306
Section 202
120 Units
5 meals per week at \$76 per month
Profit \$3,068

Lana de Redwood
1280 Veterans Boulevard
Redwood City, CA 94063
Section 236 and Section 8
136 Units
5 meals per week at \$73 per
month
Profit \$3,705

Crane Place
1331 Crane Place
Menlo Park, CA 94027
Section 221(d)(3) and Section 8
93 Units
5 meals per week at \$80 per month
No profit or loss data available

EXHIBIT 1

PLS Ex. 2

Elderly Projects with no Central Dining Facilities and no Food Service

Casa Pacifica
1060 Terra Nova Boulevard
Pacifica, CA 94044
Section 221(d)(3) and Section 8
102 Units

Redwood City Commons
875 Walnut Street
Redwood City, CA 94063
Section 221(d)(4) and Section 8
58 Units

Fairway Apartments
77 Westborough Boulevard
South San Francisco, CA 94080
Section 221(d)(4) and Section 8
74 Units

Flores Gardens
2604 Flores Street
San Mateo, CA 94403
Section 221(d)(4) and Section 8
72 Units

Pilgrim Plaza
120 North San Mateo Drive
San Mateo, CA 94401
Section 202
56 Units

Ocean View Plaza
1001 Main Street
Half Moon Bay, CA 94019
Section 202
50 Units

Amberwood Apartments
205 Cerro Drive
Daly City, CA 94015
Section 221(d)(4) and Section 8
123 Units

Sheridan Apartments
360 Sheridan Avenue
Palo Alto, CA 94306
Section 221(d)(4) and Section 8
57 Units

Runnymede Gardens
2301 Cooley Avenue
Palo Alto, CA 94303
Section 221(d)(4) and Section 8
78 Units

Villa Fontana
50 East Market Street
Daly City, CA 94014
Section 236 and Section 8
120 Units

Partridge House
817 Partridge Avenue
Menlo Park, CA 94025
Section 202
30 Units

EXHIBIT 1
PAGE 2 OF 2 PAGES

3351

AUG 28 1984

MEMORANDUM FOR: Janet Powder, Supervisory Loan Management Officer,
GICIL (S)

FROM: James J. Tahash, Director, Program Planning Division, HPHD

SUBJECT: Mandatory meal service in HUD subsidized elderly projects
in San Mateo County

The attached copy of a portion of a memorandum from you to Jonathan Strong, Trial Attorney, prepared in the course of HUD's defense of Kirkland, et al v. Motary Plaza, Inc., et al, indicates some conflict with HUD's policy regarding mandatory meal programs in projects for the elderly.

The memorandum states that Park Towers, a Section 202 project in San Mateo and Bonnie Grace Terrace, a Section 236 project in Belmont, require their residents to purchase two meals per day from their central dining facilities. This appears to be contrary to HUD Handbooks 4571.1 REV-2 (1983), Section 5-33c, and 4350.3 (1981), Section 4-13, respectively.

Will you please furnish this office, as quickly as possible, all relevant details that entered into the establishment of two meals per day in these projects which exceed the one meal per day requirement provided for in Handbook 4350.3.

Thanks very much for your assistance.

Attachment

cc:
HPHD Doyle 6182
HPHD Coleman 6182
HPHD Tahash 6182
GT Schmeltzer 10258
GTT Strong 10262
HPM Mizell 6118

HPHD:Doyle:acs 8/28/84 426-3944

HPHD
Doyle

EXHIBIT 2
PAGE ____ OF ____ PAGES

3352



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

OFFICE OF THE ASSISTANT SECRETARY FOR
PLANNING FEDERAL HOUSING COMMISSIONER

NOV 30 1984

MEMORANDUM FOR: Keith Axtell, Director of Housing, San Francisco
Area Office, 9H
FROM: *James J. Tahash* James J. Tahash, Director, Program Planning Division, HPHO
SUBJECT: Birkland, et al. v. Rotary Plaza, Inc., et al.
No. C-84-2026 SW(N.D. Cal.)
Project No. 121-44804
Rotary Plaza

As a consequence of the above referenced litigation, it has been brought to our attention that although the subject project requires tenant participation in a mandatory meals program at a fixed rate per month, your office has not approved the charges for meals in writing as required.

While we understand that your office has tacitly approved the meal charges, the Regulatory Agreement requires prior written approval by HUD.

Since your office has implicitly approved the mandatory meal charges, you should, using the attached draft letter, inform the owner that as of that date you are approving the charges currently in effect. Further, in the future, proposed increases in meals charges requires HUD's written approval prior to implementation.

Attachment

EXHIBIT 3
PAGE OF PAGES

Senior Citizens Fighting Mandatory Meals
49 Fulton St.
New York, N. Y. 10038

We undersigned elderly tenants of this Section 8/202
Federal Housing Project, have designated

RANDALL B. SMITH

to attend the U. S. House of Representatives Sub-
committee Hearing, and testify on our behalf in support
of VOLUNTARY Meal Programs as opposed to the COMPULSORY
Meal Program that our landlord has imposed on us as a
precondition to admission.

We urge that Congress provide speedy relief from this
cruel burden, which deprives us of Freedom, Liberty
and Independence.

* EXECUTIVE COMMITTEE

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(INCOMPLETE)

UNITED WAY OF AMERICA
POSITION ON HUNGER AND HOMELESSNESS

February 27, 1984

The United Way movement encompasses over 2,200 independent United Ways that raise and allocate funds to over 37,000 voluntary care agencies and service groups throughout the country. In the 1984/85 campaign United Ways raised over \$2.145 billion for health and human care services.

United Way of America is concerned about hunger and homelessness. We think they are major national problems and we urge that these problems and their causes be addressed at that level.

Although meeting basic needs such as food, clothing, and shelter has not been a primary focus of United Way services, United Ways have been involved in these services for decades. Over the past few years United Ways have become more and more involved in these services in response to sharply escalating emergency needs.

To our knowledge there are no uniform nationwide statistical data on hunger and homelessness in America. But we do know what human needs United Ways are grappling with in their communities and what problems concern them the most. According to local feedback, basic emergency needs are at the top of the list.

United Ways have selected these issues as priorities that ought to be addressed. United Ways have become more acutely aware of these needs after substantial numbers of former contributors began to come seeking help. United Ways are now funding soup kitchens, food banks and shelters on a scale unheard of just a few years ago.

In 1984 United Way of America surveyed United Ways on public policy issues affecting voluntarism and human needs. Of those responding, 68% identified hunger and 58% homelessness as major concerns that United Way of America and United Ways should address at the federal level as well as the state and local levels.

United Way allocations to services also tell us something about local needs. In 1984, by conservative estimate, United Ways allocated over \$81 million to emergency assistance programs. Allocations for these programs experienced a 64% increase since 1981. Allocations for food alone increased 29% from 1982 to 1983 and 96% from 1983 to 1984. This further highlights the fact that in United Way's eyes, these needs are remaining high. They are not substantially decreasing.

In addition, United Ways have participated in the distribution of \$160 million in federal funds for Emergency Food and Shelter through a National Board composed of United Way of America, five other national voluntary organizations and the Federal Emergency Management Agency.

In 1984 when Congress appropriated and the President approved an additional million for this program, United Ways reported that money for emergency food and shelter was badly needed because hunger and homelessness had not declined substantially.

To be sure, unemployment is a major factor in this problem, but it is not the sole cause. The President's Task Force on Food Assistance identified three distinct groups who are represented in the shelters and soup kitchens:

- o The Traditional Poor, those whose ability to pay for their needs through low paid work or public assistance has been eroded by inflation and cuts in state and federal funding;
- o The New Poor, those who have too many assets to qualify for assistance, but inadequate funds to live on due to extended unemployment;
- o The Long Term Homelessness, alcoholics, drug addicts, and the mentally ill who are unable to take control of their lives and who have nowhere to go.

A growing economy will reduce the number of the new poor and perhaps some of the traditional poor. But pressure from those groups remaining will still be with us. Their needs will continue to outstrip voluntary resources even after the current \$70 million appropriation for the National Board Emergency Food and Shelter Program is distributed to agencies. This program has been welcomed as a stopgap measure to address these needs.

However, United Way of America also recognizes that the National Board Emergency Food and Shelter Program and any similar program is not a long term solution to the problems of hunger and homelessness or of meeting emergency needs.

Recommendations:

- o Because long term solutions take some time to be developed, but emergency needs cannot be postponed, United Way of America supports the continuation of a federally funded emergency food and shelter program as a temporary continuation.
- o At the same time, United Way of America urges public policy makers to consider long term solutions.
- o United Way of America will encourage United Ways to continue to stimulate voluntary action for emergency assistance.
- o United Way of America will also study this issue and provide voluntary sector input to this public policy debate.
- o United Way of America should begin by attempting to document the scope of the problem as United Ways perceive it and by identifying the defects in government support programs that prevent them from meeting basic needs.



Woodstock Institute
417 South Dearborn Street
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March 21, 1985

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Honorable Henry Gonzalez, Chairman
Subcommittee on Housing and Community Development
House Committee on Banking, Finance and Urban Affairs
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Gonzalez:

The Woodstock Institute is a not-for-profit research and technical assistance organization which works to increase the reinvestment of private capital and credit in mature urban neighborhoods for the benefit of modest-income and minority residents. For the last eleven years, the Institute has worked with local community organizations, financial institutions and state and local government to understand the credit needs of neighborhoods and to design and implement programs to meet them. Key to this work has been our analysis of Home Mortgage Disclosure Act data, which provides information on home mortgage and improvement lending within each neighborhood.

The Home Mortgage Disclosure Act is due to expire in September. While generally viewed as a successful tool to facilitate increased lending in all neighborhoods, it has been criticized for being little used. However, Woodstock Institute's experience with the data generated by the Act has shown it to be broadly and effectively used. The enclosed report describes the variety of ways in which HMDA data has been used in Chicago to increase lending in needy neighborhoods.

The Woodstock Institute would like to see HMDA re-enacted as permanent legislation and expanded to include disclosure of commercial loans as well. I would very much like to meet with you or one of your staff members to discuss this matter further.

Sincerely,

Elsbeth Revere

Elsbeth Revere

Enclosure
ER/au

3357

**THE IMPACT OF HMDA ON CREDIT
AVAILABILITY IN CHICAGO NEIGHBORHOODS**

**BY
JEAN POGGE**

JANUARY, 1985

WOODSTOCK INSTITUTE 417 S. DEARBORN, CHICAGO, IL 60605 312/427-8070

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The passage of the federal Home Mortgage Disclosure Act (HMDA) in 1975 marked a significant neighborhood victory in the fight against redlining by regulated financial institutions. This legislation requires banks and savings and loan associations to annually disclose the number, dollar amount and type of residential loans made and bought. Disclosure of residential lending by census tract provides an invaluable tool with which to monitor lending activity in neighborhoods, develop community-based reinvestment plans and discuss reinvestment performance with lenders. It has resulted in the establishment of a data base that has been consistently helpful to regulators, financial institutions and communities as a quantitative measure of both individual lender's reinvestment performance and of neighborhood credit flows.

The Home Mortgage Disclosure Act was enacted in 1975 with a five-year life. In 1980, Congress voted to extend it for another five years. Since the necessity for Congress to renew HMDA again in 1985 presents another opportunity to examine the value of the legislation, it is a good time to review recent experience with HMDA data and look at its impact on credit availability in low- and moderate-income neighborhoods.

Within the Chicago area, HMDA has proved to be a versatile source of information to a variety of actors. HMDA data has been used to evaluate the reinvestment performance of individual financial institutions, to forge loan agreements between communities and lenders, to select socially responsive institutions in which to place deposits, to plan and manage reinvestment at the community level, and to inform bank management decisions. The data has been used by community organizations, religious institutions, regulators, and financial institutions. Below is a sample of some of the specific experiences in which Woodstock Institute has provided HMDA data analysis and/or technical assistance.

Reinvestment Agreements with Lenders

Since 1980, over \$175 million has become available for loans in Chicago area low- and moderate-income neighborhoods through reinvestment agreements with Chicago financial institutions. In each case, the agreement was designed by community organizations working in tandem with the lender. All agreements specify a lending initiative implemented in partnership with neighborhood-based organizations.

To establish the basis for an equal partnership, neighborhood-based organizations not only had to demonstrate their development skills and neighborhood expertise, but also had to be familiar with lender performance and capacity. The first step in the process of establishing that familiarity was a comprehensive examination of the lending patterns evident in HMDA data. The lending volume in particular low- and moderate-income and minority neighborhoods was compared with lending volume in high-income predominantly white neighborhoods and suburbs. Central city lending was compared to suburban lending.

The individual lender's neighborhood loan volume was compared to the total for all lenders. Without HMDA, this analysis would not have been possible and new loan dollars for traditionally underserved credit markets may not have become a reality. Five significant examples of reinvestment agreements follow.

Pioneer Bank

The Westtown Concerned Citizens Coalition (WCCC) is a multi-issue Hispanic community organization based in the Humboldt Park area. To determine the credit flows in the neighborhood in 1979 WCCC began to analyze HMDA statements from 20 Chicago banks and savings and loan associations. This analysis was used to select Pioneer Bank, a local lender as a potential reinvestment partner with WCCC. Subsequently, WCCC developed a reinvestment partnership with Pioneer Bank and the Illinois State Treasurer called the East Humboldt Park Mortgage Program. This program provided \$1 million in low-interest mortgage loans to enable modest- and low-income neighborhood residents to purchase single-family homes in the community.

Rogers Park Housing Forum

In February, 1983, the Rogers Park Housing Forum, a coalition of block clubs, tenant organizations and multi-issue community organizations in Rogers Park, sponsored a Neighborhood Reinvestment Workshop for community residents. Workshop strategy sessions led to development of a reinvestment plan that included research on the match between the lending performance of local financial institutions and community credit needs. HMDA data was used to determine the lending record of local lenders at the census tract level, the neighborhood level and the city level. Survey information was used to quantify community credit needs. When an opportunity to challenge the reinvestment performance of two local lenders arose, community residents were well prepared to intelligently discuss community reinvestment opportunities. Subsequently, an agreement to create special lending programs to meet the credit needs of the community was reached with both lenders.

First National Bank

In the summer of 1983, First Chicago Corporation, the bank holding company for the First National Bank of Chicago (at the time, Chicago's second largest bank), announced its intention to acquire American National Bank (Chicago's fifth largest bank). Viewing the First Chicago acquisition as one of the most significant Chicago banking events in recent years, Woodstock Institute, a not-for-profit research and technical assistance organization focusing on reinvestment in urban areas, conducted an analysis of HMDA data for the years 1979-82 for First National Bank and American National Bank. Following an invitation to discuss this HMDA analysis, thirty-five neighborhood and city-wide organizations, calling themselves

the Chicago Reinvestment Alliance, decided to use the Community Reinvestment Act to open a dialog with First Chicago about Chicago neighborhood credit needs. The Alliance presented opportunities for improvement in First Chicago's reinvestment performance to senior bank management. As a result of this dialog, First Chicago Corporation initiated a five-year, \$120 million, Neighborhood Lending Program targeted to low- and moderate-income communities in the Chicago area.

Harris Bank

In 1984, Bank of Montreal announced its intention to acquire Harris Bankcorp, at that time the third largest bank holding company in Illinois. Community-based organizations had concerns about the effect of this acquisition on credit availability in Chicago neighborhoods. HMDA analysis was used by the Chicago Reinvestment Alliance to assess the past reinvestment performance of Harris Bank. Research on HMDA data provided evidence of the importance of Harris Bank as a locally responsive lender. In response to discussions of Chicago neighborhood credit needs with the Chicago Reinvestment Alliance, Harris Bank announced a demonstration of its continuing commitment to Chicago and its neighborhoods through the initiation of a \$35 million lending program targeted to low- and moderate-income neighborhoods in Chicago.

The Northern Trust

The Northern Trust Company's March, 1984 application to the Federal Reserve Board for permission to establish additional holding companies in Florida presented an opportunity for Chicago community groups to examine the bank's performance under the Community Reinvestment Act. HMDA data analysis was used to assess the Northern Trust lending record in Chicago neighborhoods and to determine opportunities for new lending initiatives. In response to discussions with the Chicago Reinvestment Alliance, The Northern Trust implemented an \$18 million multi-year lending program targeted to low- and moderate-income neighborhoods in the Chicago area.

Information for Determining Deposit Relationships

Since the deregulation of interest rates on deposits, financial institutions aggressively compete for new deposits. Advertisements promise bonus interest rates, personal bankers, free checking accounts and many other inducements to attract money.

Recently, several organizations have looked for another type of incentive from lenders -- a positive community reinvestment record. Examination of a lender's HMDA record shows the extent to which it is providing home mortgages, home improvement loans and multi-family financing within neighborhoods. From this information, loan volume in low- and moderate-income and minority neighborhoods can be compared with loan volume in higher-income neighborhoods. Potential depositors can then judge if their deposits will be used to help the neighborhoods they work and live in or will be siphoned off to "upscale" markets.

Lutheran School of Theology

In the spring of 1981 a group of 45 students from the Lutheran School of Theology formed a "Task Force on Banking Alternatives" as part of a campaign to terminate the School's relationship with a bank that was lending within the Republic of South Africa. To better inform its work, the Task Force investigated five Chicago banks that were potential replacements for the existing bank. HMDA data was used to determine the lending records of those banks within Chicago. Particular attention was paid to lending performance in minority and low income neighborhoods. The results of the study were used to select a financial institution with a good community lending record for the future deposit relationship with the Lutheran School of Theology. In addition, the study was published to make the information available to others interested in using reinvestment performance as a criterion for deposit relationships.

Housing Resource Center of Uptown

When the Housing Resource Center secured a contract to manage scattered site housing for the Chicago Housing Authority, an analysis was done of the community lending performance of local banks and savings and loans. HMDA data was examined to determine the local lending records of Uptown financial institutions. This information was used as one of the criterion for determining the most appropriate bank for the HRC Scattered Site banking relationship.

Lawyer's Committee for Better Housing

The Lawyers Committee for Better Housing looked at the reinvestment performance of Rogers Park banks and savings and loans at the time they established a local banking relationship. Local lending records as shown by HMDA data were critical to this assessment.

Reinvestment Management

Credit is the lifeblood of a healthy neighborhood economy. Without access to credit, houses don't sell, apartment buildings deteriorate, businesses contract, and neighborhoods wither.

The reinvestment of neighborhood deposits in loans to supply credit to a neighborhood is the traditional role of financial institutions. However, at times, neighborhoods have to actively monitor and manage reinvestment activity to guard against the use of credit to foster speculation and displacement of low- and moderate-income residents.

HMDA data analysis can disclose patterns of speculation as evident in uneven increases in lending volume. Often, blocks with high loan volume border areas of extremely low loan activity. Further examination can show the high loan activity is within gentrifying blocks.

HMDA data is critical for monitoring neighborhood credit flows. It provides the information necessary for community organizations to discuss marketing strategy, loan products and pricing with local lenders. Seven examples of effective reinvestment management follow.

Organization of the North East

For the last eleven years, Organization of the North East (ONE) has monitored the lending records of Uptown financial institutions. Using HMDA data to determine the extent of residential lending in the Uptown community, ONE has published the lending records of both local and downtown lenders. Periodically, ONE has discussed community credit needs with local lenders to encourage reinvestment. Because the community organization spearheaded these initiatives, they were able to advocate for reinvestment to stabilize the community and warn against the kind of speculation that had displaced the low- and moderate- income residents of other lakefront neighborhoods.

Neighborhood Housing Services in Chicago

Neighborhood Housing Services (NHS) has seven neighborhood offices in Chicago that work with lenders and borrowers to encourage residential lending in the traditionally underserved credit markets of moderate-income neighborhoods. To monitor the overall effectiveness of this work, NHS periodically examines HMDA data for those seven neighborhoods to determine if loan volume is increasing and if additional financial institutions are lending in those neighborhoods.

Organization of New City

Organization of New City (ONC) is a multi-issue community organization based in a southside black neighborhood. As part of its effort to upgrade housing quality in the neighborhood, ONC leadership developed a reinvestment plan to target specific strategies for encouraging lending in the neighborhood. To provide the information necessary to inform the planning process, HMDA data was examined to determine the local lending records of local and city-wide financial institutions. This research was publicized to create public awareness of local lending patterns and to foster discussions of community credit needs with lenders.

Uptown Center Hull House

When a local financial institution acquired several very large apartment buildings in a small area of Uptown for condo conversions, Uptown Center Hull House became concerned about the effect of this acquisition on the existing low income residents of the buildings. HMDA data was used to assess the past reinvestment performance of the institution and to oppose the acquisition as fueling speculation. Subsequently the organization opposed the low-quality management of the buildings as a continuation of the institution's pattern of disinvestment in the community.

Logan Square Neighborhood Association

Following a period of speculation in the Logan Square neighborhood, lending activity slowed to a trickle and neighborhood residents found it difficult to finance the sale of their homes. The Logan Square Neighborhood Association (LSNA) analyzed HMDA data to provide the information needed to plan and focus community efforts on this problem. Through the HMDA analysis LSNA identified the top ten most active mortgage lenders in the neighborhood. The organization then publicized the positive efforts of these lenders in its newsletter and sponsored a seminar for neighborhood renters entitled "How to Buy Your First Home" to help local residents sell their homes to local residents.

1992 Committee

In 1984, the Jewish Council on Urban Affairs examined HMDA data for several downtown banks to determine the extent, if any, of land speculation at the proposed 1992 World's Fair site. This information was presented to the 1992 Committee, a neighborhood-based, city-wide coalition examining the potential impact of the proposed Fair on Chicago neighborhoods.

South Suburban Housing Center

The South Suburban Housing Center works to end racial discrimination in real estate sales in the south suburbs of Chicago. HMDA analysis was used to educate the community, lenders and real estate brokers about patterns of discrimination in lending. From this effort an affirmative lending program was launched.

Bank Marketing Research

Corporate decision making often relies on data provided by sophisticated management information systems that map performance of production units, profitability of pricing levels, effectiveness of marketing strategies and changes in the market.

One of the simpler sources of information on the corporate performance of lenders is HMDA data. Because this information is publicly available from all banks and savings and loan associations it can provide a rich source of information for marketing research. Lenders seeking under-served credit markets can examine loan volume by census tract and contrast it with visual inspections of housing stock in low-volume neighborhoods. This analysis can quickly identify stable moderate-income neighborhoods ripe for new home mortgage marketing efforts.

HMDA is routinely produced by individual lenders so it can provide an annual measure of the success of marketing initiatives in low- and moderate-income neighborhoods. When compared with corporate information on deposits, this information can be even more useful in informing management

of the level of loan service provided to both long-term and new customers. It can also serve as a management check on loan officer attitudes towards lending in minority neighborhoods.

Although HMDA is not as widely used by management as it could be, there are several outstanding examples of its use.

Talman Home Federal Savings and Loan Association

On an ongoing basis, Talman staff look closely at changes in Talman's loan volume in Chicago neighborhoods, in the central city and in the suburbs. Comparisons are sometimes made with other lenders. This analysis is used by Talman management to inform marketing efforts, create new lending initiatives, and target appropriate reinvestment issues for personnel training.

Illinois Neighborhood Development Corporation/South Shore Bank

In 1984, the Illinois Neighborhood Development Corporation (INDC) decided to expand its activities into another neighborhood through the opening of a second South Shore Bank facility. A neighborhood selection process was designed that included seven screening criteria one of which measured the level of residential lending in neighborhoods. HMDA data was used to apply this criteria to identify under-served credit markets. After the final neighborhood selection was completed, HMDA data was again used by bank management to complete a market analysis of the income potential for a bank facility.

South Chicago Savings Bank

After discussions with federal regulators about their lending, South Chicago Savings Bank decided to design a strategy for improving their reinvestment performance. HMDA analysis was used to test historical market demand for various types of loan products and to inform bank management of credit opportunities currently being met by competing financial institutions.

CONCLUSION

Until very recently, HMDA data has not been available in machine readable format. This has meant analysis of thousands of numbers from hundreds of financial institutions has been done without the benefit of computer speed and accuracy. Despite this substantial handicap, HMDA data has been a critical source of information for communities, lenders and regulators.

As demonstrated in this sample of specific experiences with the data, HMDA data has made a tangible impact on credit availability in Chicago, particularly in low- and moderate-income and minority neighborhoods.

Renewal of the legislation is an appropriate and low-cost way to ensure that all neighborhoods have access to the information they need to monitor housing credit flows. Expansion of the legislation to require disclosure of commercial and consumer loans from both regulated depository and nondepository lenders would enhance the usefulness of this invaluable data base.

NOTE on Improvement in HMDA Data

Woodstock Institute has collected and maintained copies of the HMDA data from Chicago financial institutions since passage of HMDA in 1975. Over the last ten years, the Institute has been a resource for community organizations, regulators and financial institutions both as a central source for the data as well as a technical assistant in analysing and using the data.

The Institute's experience with using HMDA data supplied by Chicago lenders as well as with the machine readable HMDA data prepared by the Federal Reserve Bank has shown that the quality, accessibility, and usefulness of the data has improved dramatically in recent years. A brief description of the Institute's observations on these changes follows.

The quality of the information supplied by lenders has improved dramatically. Following enactment of HMDA, financial institutions and regulators alike had difficulty interpreting what was required by the law. However, by 1978 there was fairly uniform reporting of similiar information in similiar formats by Chicago financia institutions. The 1980 legislation renewing HMDA mandated a uniform reporting format which standardized he data. There has also been consistant improvement in the quality of the information reported by lenders. Not only has the number of obvious errors in reporting (such as reporting 10 mortgages with a total of \$5,000 in a census tract) diminished considerably but the omissions common in early reports have all but disappeared.

Although HMDA originally required disclosure for public inspection, it did not require financial institutions to make photocopies available or to facilitate public inspection of the data. Often a request for HMDA data would create an institution wide search for the right individual to produce the information. Many times the inspection was allowed only after a lengthy delay. Lenders often charged exhorbitant prices for photocopies of the information.

The 1980 legislation renewing HMDA mandated the creation of central depositories for the data. These depositories provide a single location for collection of HMDA data for all lenders within the SMSA. This makes data collection less intimidating and facilitates the analysis of credit availability within neighborhoods through comparison of lending records from various financial institutions.

Perhaps the most significant improvement in accessibility of HMDA data has been the conversion to machine readable format. In 1980, the Federal Reserve began to collect HMDA data from other regulators and convert it to a machine readable format. The first product of this effort was the production of total loan volume by all regulated financial institutions in census tracts in all SMSA's. These totals can be used as a simple measure of loan volume in each census tract. They also make possible a comparison of individual lender's performance to overall volume within a census tract, comparisons of loan volume among neighborhoods, and an examination of lending differences in central city and suburb locations.

The conversion of HMDA data to machine readable format for the first time permits comprehensive analysis of credit flows within and among SMSAs throughout the country. HMDA data in machine readable form allows management of large amounts of information on lending performance and patterns on computer, both mainframes and micros. As the techniques of managing this large data set are developed, community access to the information will dramatically improve. In addition, assessment of lender performance will become more timely, accurate and accessible.

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STATEMENT ON HR 1

by

BARRY L. NERSEY

March 11, 1985

Dear Mr. Chairman:

Thank you very much for this opportunity to comment for the record on HR 1, with particular focus on the Federal Crime Insurance Program. I previously testified before the subcommittee on April 1, 1982 and that testimony should follow the conclusion of today's comments.**

By 1982, I was an established insurance agent who was vocal, ardent and consistent in the support of the FCIP. At that time I believed that the program served a real function to an underserved (underclass?) constituency. I believed that the only way inner-city businesses and residents could obtain affordable crime insurance, was through the Federal Government. For two reasons, I no longer hold that belief.

First, I believe that the crime insurance now offered by the Federal Insurance Administration (FIA) is not affordable for those whom it was originally intended. Historically, the FCIP arose out of the urban ashes of national civil disturbances of the 1960's. It is not for me to herein argue that those social problems which caused the riots have been fundamentally altered. It is, nonetheless, quite clear that even if the fundamentals have not significantly changed from the 1960's, their manifestations have. Crime, or the threat of crime, does not keep businesses from opening, operating, or closing in today's urban environments.

In my 1982 testimony, I gave many examples of stores which could not operate without the protection of crime insurance or which closed following a crime. In retrospect, I now believe I may have overstated my case. That is, upon closer examination of those situations, it may be that those businesses that closed

** For the April 1, 1982, testimony, see the "Housing and Urban-Rural Recovery Act of 1982," Hearings before the Subcommittee on Housing and Community Development, of the Committee on Banking, Finance and Urban Affairs, House of Representatives, PART 4, Serial No. 97-55, page 2969.

were marginal or under capitalised or collapsed for reasons beyond the fact that they were victims of crime. For those examples where I said that they could not operate without insurance, the key word is affordable insurance. By 1985, the current and proposed FCIP premiums will not help retain any businesses in urban, underserved areas. Finally, I do not believe that the FCIP can currently attract businesses or help keep businesses in high crime areas. I heard nothing statistical at the March 11, 1985 hearings, to make me believe that businesses (or residents) would leave or not settle in an area because of the non-availability of crime insurance. I therefore conclude that since the FCIP is no longer meeting its mandate to provide affordable insurance so that high crime areas will not be deserted by business or residents, the FCIP not be renewed.

The second reason the FCIP has outlived its usefulness is because I believe that the private sector can better serve this underserved (or underclass?) market. By "better serve", I mean be more responsive to the real needs of businesses and residents in the urban areas. In my remarks of 1982, I was quite candid about the administrative problems of the existing FCIP. I have concluded that these problems are inherent to the Program and can never be corrected. Claims adjustment by Federal standards, can never be fair to all small businessmen; some small businesses will always suffer as a result of the bureaucracy. It is possible that fewer businesses will be harmed by slow claims adjustment or billing errors or protective

device requirements, if they promulgated by a financially interested party (private industry) instead of a well-intended but ultimately unresponsive bureaucrat. For many years I have waited for the administrative burdens of the FCIP to be shaken down or eliminated. Since the problems I outlined in 1982 seemingly cannot be ameliorated, I urge you not to renew the FCIP.

In conclusion, I ask both Democrats and Republicans to look closely at the FCIP. As an insurance agent who has been intimately involved and interested in this Program since its inception, I believe that the reasons for its existence are no longer valid. Since it is neither truly affordable nor compassionately administered, it has no usefulness or national constituency. In light of other national problems, such as budget deficits, the Federal Crime Insurance Program does not merit Congressional funding or approval.

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WRITTEN TESTIMONY OF
SHELDON L. SCHREIBERG
COUNSEL TO
THE NATIONAL ADVISORY COUNCIL
OF HUD MANAGEMENT AGENTS

March 14, 1985

FOR THE HEARING RECORD ON H.R. 1
HEARINGS BEFORE THE COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT, U.S. HOUSE OF REPRESENTATIVES

BROWNSTEIN ZEIDMAN AND SCHOMER

My name is Sheldon L. Schreiber. I am presenting this testimony in support of H.R. 1 as counsel to the National Advisory Council of HUD Management Agents. The Council comprises 36 independent management firms from all regions of the country that are responsible for the management of approximately 35 percent of all HUD-financed housing in the country. Our officers, for instance, are aware of issues in many sectors of the country: Council President Daniel B. Grady is from California; First Vice-President William Kargman from Massachusetts; Second Vice-President Irwin Yeagle, New Jersey; Secretary Robert Shirer, Florida, and Treasurer Harold Platter, Tennessee. We engage in an ongoing dialogue with the regulatory agencies on procedures, practices and regulations that will make housing work better; we also try to practice what we preach.

Our position is virtually unchanged from that expressed last year by G. Lindsay Crump, Council Chairman, in testimony before the Manpower and Housing Subcommittee of the House Committee on Government Operations, when the Council urged passage of H.R. 5254, Congressman Frank's proposal to authorize a direct loan program to preserve existing housing stock. That is a goal central to our concerns. At that time the Council, and every other sector of the industry -- owners, builders, managers, tenants and state agencies -- supported that legislation.

It is increasingly urgent today given the nature of the tax proposals put forward since that time by the Treasury Department. Real estate finance and development and the prospects for preserving existing multifamily housing would be

among the big losers should these proposals pass in their present form. What makes the thrust of the Frank proposal even more critical is that the tax proposals would kill resyndication, which previously offered some prospects for assistance to our existing rental stock.

The Council therefore supports the major directions of H.R. 1 and applauds the Committee's efforts to maintain existing HUD programs at their current funding levels; for the reasons discussed below, the Council also urges the inclusion of Congressman Frank's legislative proposals in H.R. 1.

Our immediate concern is for the existing stock of nearly 700,000 units of Section 221(d)3 BMIR, 221(d)3 100 percent rent supplement and Section 236 multifamily projects that are still in private hands, and that are 10 to 13 years old today and in growing need of capital repairs.

Most of these projects have paid their own way over the years, have enjoyed marginal cash flow, but simply do not have an adequate reserve or other source of funds for immediate repair or replacement of major systems. For the past several years the housing management industry has sought federal recognition of the need for a workable program that would provide funds for these projects as required in order to preserve the properties against further deterioration.

These funds need to be borrowed, with loans to be paid back in a businesslike fashion, based on amortization schedules and interest rates compatible with the project's cash flow capabilities and without restrictions that would strip owners of whatever freedom to do business they presently enjoy under the existing regulatory agreements.

Industry surveys made in 1983 indicate that approximately 10 percent of the HUD multifamily inventory has an immediate need for an average expenditure of \$800 per unit, with repair or replacement levels ranging from \$500 to up to \$3,000 per unit.

The needs range from roofs, driveways, and siding faults to major problems with plumbing and HVAC systems. When projected over at least 10 years, the cost of the necessary improvements is expected to average about \$3,000 per unit. Not only is the present need serious, but history shows that unless repairs are made when the problem occurs, both the rate of deterioration and the costs accelerate.

These estimates are further borne out by facts flowing from the current resyndication of existing projects. Projects we see and consider for purchase and resyndication are requiring immediate up front repairs averaging \$800 per unit. At the same time, an examination of the major physical components of these same projects shows an average of \$3,120 per unit in additional capital repairs can be expected over the next 10 years. This is fully consistent with the industry survey noted earlier.

Such problems are not unusual; as real estate ages it requires repair and replacement. Where real estate is conventionally financed, such repairs are handled on a business-like basis with the owner going either to the mortgages or to the local bank, arranging refinancing or a short-term loan, making the repairs, raising rents if necessary, and using the project cash flow to repay the loans. Subsidized housing cannot operate that freely; an owner can do only what HUD and the State agencies permit. The following scenario more closely describes the situation for subsidized housing:

1. Bank loans are rarely available. The projects themselves do not represent worthwhile credit as they cannot be encumbered; also the restricted project cash flow cannot accommodate market interest and a quick payback period.
2. The only federally-sponsored second mortgage program available today is Section 241--long since found unworkable because of the time and costs involved and the absence of interested mortgagees. Fewer than 70 Section 241 loans have been processed over the past 15 years - - hardly a vehicle likely to prove responsive to several thousand projects in need of physical assistance.

3. Project replacement reserves are woefully inadequate. Most projects began business 11 to 14 years ago with average annual deposits of \$65 to \$75 per unit and many have not been able to increase the deposit rate because rent levels in their market area won't permit it. We are talking, therefore, about an average reserve balance today of around \$340 per unit or the equivalent of what should be deposited each year in order to meet future needs. Annual deposits into project reserves should be five times their present average rate.
4. The flexible subsidy loan program could be regarded as a source of funds except that this program was designed for projects already in distress. The projects in question are not in distress; indeed, the very purpose of proposed H.R. 5254 was to keep them from reaching that point. Additionally, the flexible subsidy program places several restraints on project operations that owners of these relatively stable projects simply cannot justify. Although the flexible subsidy program has served a valuable purpose, it is a last resort inappropriate for the rental stock under discussion.

5. Finally, until the end of 1984 resyndication of existing projects also could be regarded as a source of funds to preserve and rehabilitate the projects involved. The tremendous uncertainty created by last November's Treasury proposals has killed resyndications. Even if the Treasury position were reversed or rejected, the more important point is this question: Should an owner be required to sell his property in order to repair his roof?

In summary, there is no source of funds for major preventive measures except the owner's pocket, an obviously limited resource.

We believe that a solution must be found to address this ever-growing problem; or else America itself will come out the loser. The options for preserving critical rental stock diminish as the prospects for production of new moderate income rental housing dims appreciably. It is a matter of economic equity as well if we realize that renters overall represent a sector of our population at half the income level of homeowners. To the extent we accept the loss of decent rental housing, we fail in our responsibility to provide decent housing for all sectors of our society. The Council strongly supports Congressman Frank's proposed legislation, urges its inclusion in H.R. 1, and makes these specific comments:

We support the concept of a direct loan, administered by the Loan Management office of HUD. This will reduce federal and industry administrative costs and permit timely action.

We agree that the owner should participate in providing the necessary funding and that a contribution is reasonable. We have trouble conceptually, however, with the provision to increase the owner's contribution beyond 20 percent if the income-to-rent ratios of the residents suggest the rents cannot accommodate additional debt service on any other basis. Experience tells us that the stated maximum becomes the minimum in this business. We recommend the legislation remain silent on this point with language instead that permits the Secretary and the owner to exercise discretion based on the circumstances in individual cases.

We also agree that energy efficiency measures be incorporated into the schedule of repair work for the components involved and that an effective preventive maintenance system be required.

As stated earlier, the interest rate to be charged and the term for repayment should be compatible with the project's ability to repay. If a rate of 6 percent is determined appropriate by the Congress for the purposes of this legislation, (and we believe this rate to be appropriate) then all loans should be made at that rate but repaid over vary-

ing periods of time not to exceed the remaining term of the first mortgage. The interest rate should be less than 6 percent only if it is determined that the additional debt service will result in rent levels exceeding the ability to pay of the majority of the tenants.

During the term of the loan the owner should retain the opportunity to earn the available limited dividend. This contrasts with the flexible subsidy program wherein the limited dividend is waived so long as the loan is in force.

We do not agree that an owner should be required to maintain the low - and moderate - income character of the property to any extent beyond his present obligations. If the owner borrows in good faith, repays the loan on time, sticks by all the rules, and is required to prepay the loan in a sale or refinancing we believe that is enough. It is highly questionable, in any event, that the properties involved may ever be other than low and moderate in character given their design, location and lack of amenities. It seems to us, therefore, that the housing stock can be much better served by providing workable tools to maintain and preserve the stock for those who live there now and who, in all likelihood, will remain as the residents in the future due to free market forces.

We feel strongly that the probable scope of this program is more than reasonable. If there are 700,000 units at stake, of which approximately 10 percent of the total each year require an average of \$800 per unit in capital repairs, then we are talking about \$50- \$60 million per year in loans. This is consistent with the proposed legislation. On the other hand, we understand HUD has made estimates that approximate \$1.4 billion over 15 years, which represents around \$93 million per year. Somewhere in between may lie the full answer.

That being so, a buy-down of interest from a market rate of 12 percent to a loan rate of 6 percent on, say, \$60 million in loans, would cost only \$3 to \$4 million per year in interest subsidy. One good claim against the insurance fund amounts to more than that.

Given those workable parameters, we believe Congressman Frank's proposed legislation would fill a huge void in the industry. There is no one answer to the problem of preserving this housing. Certainly the resyndication program is an effective preservation tool and, by all means, must continue. For those projects that are beyond the scope of all other programs, flexible subsidy assistance is critical. In between these two programs an urgent need exists to assist these aging products.

We also have only one comment on Title II of the Frank legislation. We have no quarrel with its thrust and generally support its objectives. Section 204, however, expands the number and types of an owner's basic investment decisions as to which the HUD Secretary may invite and consider tenant comment. Speci-

fically it appears to include an owner's request to pay off a mortgage or sell his property. The entire area of tenant participation in management is one which has been debated by the Congress for the past seven or eight years; we believe present law strikes a good balance. While tenants often have a valuable contribution to make in many aspects of day to day management, there is no need, no place, indeed, no right for them to participate in such fundamental investment decisions.

In concluding our statement we want to express again our sincere appreciation to the Committee for its courageous efforts this year and in the past, and especially for proposing H.R. 1. We urge you to include Congressman Frank's much needed legislation. It addresses a critical issue affecting the very future of the entire low and moderate income stock.

(The New Republic, March 18, 1985)

What Ronald Reagan could learn from Charles Dickens.

ABANDONED AMERICANS

BY DOROTHY WICKENDEN

ON SUNDAY, November 4, a few hours after he ended his 51-day hunger strike, Mitch Snyder appeared on "60 Minutes." Mike Wallace began by calling him "the shepherd of the homeless in Washington, the nation's capital," and, toward the end of the interview, asked in his most seductive manner: "Gandhi, Mother Theresa, Martin Luther King—Mitch Snyder?" "No," Snyder replied in a rare burst of modesty, "I wouldn't go that far." He had already gone pretty far: he had starved himself nearly to death in order to bludgeon the Reagan administration into supplying up to five million dollars to repair the crumbling shelter for the homeless he runs at 225 Second Street NW, just north of the Capitol. The administration, faced with the prospect of a martyred Snyder on television's highest-rated news show two days before the election, capitulated.

Four months later, the repairs are still in the planning stage. In the meantime, the building remains, as Snyder pithily puts it, "a place fit for vermin and trash." Heavy metal screens have been affixed to all of the windows to keep out vandals. The cavernous concrete basement serves as a feeding and "drop-in" center for up to 1,000 men during the day and early evening. At 8 p.m. the upper-floor dormitories open. (A separate section of the building houses about 100 women at night. They are asked to leave at 8 a.m. There is as yet nowhere for them to go during the day.) The stairways reek of urine and many of the walls have been kicked in. Five or six live-in volunteers patrol the shelter's labyrinthine corridors and dormitory rooms with walkie-talkies in case of trouble. As I arrived one night this winter, a man was being ejected from the premises for attacking another "guest." Snyder matter-of-factly pointed out a pool of congealed blood near one stairwell: "A guy was stabbed here a few nights ago. No one's cleaned it up yet."

The First District police, who file the reports on assaults, disorderly conduct, and thefts at the shelter, refer to it as "the Second Street Hilton." Health and Human Services Secretary Margaret Heckler, who granted Snyder the initial temporary lease on the federally owned building last winter and was a guest speaker at its festive opening, billed it as "a sanctuary" and "a symbol of hope. . . . There is enough love here today to heat this building for many years. So that is no problem." Heckler's optimism proved to be premature. Snyder is well known for his imperious manner. He refuses to work with other shelter administra-

tors in the city, and as a self-proclaimed anarchist he believes that "the federal and local governments have no right to exist." "We accept only neutral things from them," he told me, "like buildings." A few months after the opening lovefest, Snyder announced that if the lease was not extended, he and his group would set up tents in Lafayette Park across from the White House. The administration agreed to his demands, as it did when he began appealing, wraithlike, on "Nightline" and "60 Minutes."

What should we do about the homeless? Preventing people from starving to death or dying of exposure in the streets is the absolute minimal obligation of society. To his credit, Snyder has forced America to recollect that obligation. Yet the sprouting of emergency shelters like the one at Second Street are hardly "symbols of hope." These new "sanctuaries," chronically underfunded and poorly staffed, are often dangerous as well as squalid. They are the end product of a long chain of abysmal social failures. They started off as temporary havens. In the absence of any coherent policy, they have evolved into an alternate form of public housing and psychiatric care. The truth is that they resemble nothing so much as the poor houses and insane asylums of the past.

There is still considerable confusion about how many homeless people there are in America, who they are, why they are on the streets, and how they should be provided for. And it's not for lack of attention. Over the past several years, countless reports have been written, congressional hearings held, task forces formed, and lawsuits filed on behalf of a group of people that was once politically powerless and socially invisible. Politicians and the public, dismayed by accounts of rapidly growing numbers of people living in alleys, cars, and cardboard boxes, are beginning to address an issue that used to concern only Salvation Army workers and religious charities.

Yet the causes of homelessness are not a mystery. There is the massive release from large state hospitals of mental patients over the last 20 years, in a movement known as "deinstitutionalization"; the ever-dwindling supply of affordable housing for the poor; continuing high unemployment; and the shaving of welfare benefits and the tightening of eligibility requirements. Solutions are harder to come by.

The administration has been called to task in two congressional hearings. The first was for a report issued last May by the Department of Housing and Urban Develop-

ment that, according to critics, whitewashed the crisis. The other, in November, focused on the administration's failure to fulfill its pledge to supply empty federal buildings and surplus food for the homeless. At the time of the hearing, only three buildings had been obtained, including Mitch Snyder's shelter. The food distributed through 190 military commissaries was found to be negligible. And \$7.1 million of the eight million dollars Congress had appropriated to the Department of Defense to renovate empty military facilities had been spent on routine defense maintenance instead.

HUD's *Report on the Homeless and Emergency Shelters* became a cause célèbre for concluding, among other things, that there were "only" 250,000 to 350,000 homeless people nationwide seeking shelter on an average night in December 1983 and January 1984. "For most people who become homeless," the report says cheerily, "their condition is recent and likely to be temporary." Most studies judge the correct number to be two or three million. An enraged Mitch Snyder demanded that HUD retract its figures. For a time, this was one of the conditions for ending his fast. The congressional hearing showed fairly convincingly that the methodology of the report was indeed slipshod and that the numbers were too low.

But the HUD report, for all its inaccuracies and complacency, implicitly confirmed what other studies and newspaper stories have been saying. First, the problem is getting worse, and the rapid proliferation of shelters cannot keep pace. Even using HUD's figures, there are only about half as many beds in emergency shelters as there are people in need of them. And second, the widespread impression that most of the homeless are chronically alcoholic or mentally ill is wrong. The shelter population is actually getting younger; the average age is usually judged to be 34. HUD says that at least 35 percent to 40 percent of the total is recently unemployed. And this group is getting to look more like the typical poor: there are more minority people, particularly blacks, and more single-parent families.

MUCH HAS BEEN made of the failures of deinstitutionalization. A widely cited clinical study published last December in *The American Journal of Psychiatry* claimed that at one supposedly typical shelter in Boston at least 40 percent of the residents were psychotics, 29 percent were chronic alcoholics, and 21 percent had severe personality disorders of one kind or another. The implication is that 90 percent of homeless people are drunks or lunatics. That's a big exaggeration. The Task Force Report of the American Psychiatric Association, *The Homeless Mentally Ill*, the most thorough and widely respected investigation of the subject, estimates that of about two million homeless people in the United States, perhaps "as many as half suffer from alcohol, drug abuse, or mental health problems." Most other nationwide studies confirm this conclusion.

Clearly a lot of homeless people got that way as casualties of a cruelly ineffective mental health system, and emergency shelters are a poor substitute for sustained

psychiatric care. Many of the deinstitutionalized who had been living relatively independent lives lost their Social Security Disability Insurance and Supplemental Security Income—and subsequently their homes—in the Reagan administration's 1981 paring down of benefits and purging of the rolls. What's more, a new generation of "space cases," as they are known among other street people, is beginning to show up in city shelters. Many of them are schizophrenics; others are strung out on drugs like PCP. Apart from occasional trips to hospital emergency rooms, most have received no professional help of any kind.

Nevertheless, the composition of the homeless population is changing. The hundreds of thousands who crowd through the doors of city shelters, welfare hotels, churches, and synagogues each night for a meal and a mattress are not only the traditional social outcasts—the bag ladies, skid-row alcoholics, and muttering schizophrenics who are a familiar part of the urban landscape. In growing numbers they are being joined there by battered women, elderly poor and disabled, and—most significantly—unemployed people with their entire families.

IN THE MIDST of the recession a few years ago, the papers were filled with stories of lines at soup kitchens, Great Depression-style. Today, in the midst of the economic recovery, the stories are about unemployed workers in the industrial Midwest whose benefits have expired and who can no longer afford their rent; or about people living in cars; or about families seeking temporary shelter at city welfare offices. It is becoming apparent that many of the poor have not shared in the economic recovery. Indeed, many of them have suffered from it.

Every major recent study cites neighborhood gentrification and the decline in low-income housing (particularly single-room occupancy hotels, or SROs) as principal causes of homelessness. *The Making of America's Homeless*, the latest report by the nonpartisan research group, the Community Services Society, estimates that 2.5 million Americans every year lose their homes, and about 500,000 low-rent apartments vanish as a result of conversion, arson, abandonment, inflation, and demolition. In Denver, which is experiencing both rapid redevelopment and an influx of unemployed from the industrial belt, the problem is particularly severe. Boarding houses in the low-rent districts are being replaced by condominiums; the number of boarding-room beds decreased from about 1,300 to about 400 over the last eight years, according to the National Coalition on the Homeless. Numerous shelter administrators emphasized that most of their charges are the new poor.

In mid-February Ruth Marcus reported in *The Washington Post* that shelters in the suburbs are now being inundated by the working poor. "Often working at service jobs for the minimum wage of \$3.50 an hour . . . they may be hit by a run of bad luck, or their housing situation may simply collapse under the strain of skyrocketing suburban rents." Even when the overall unemployment rate is going down, people still lose their jobs—and their homes. A

report by the U.S. Conference of Mayors, *Homelessness in America's Cities*, concluded that although unemployment had dropped in the ten cities it studied, the population in need of emergency shelter had increased. Spokesmen in San Francisco said that 63 percent of those in shelters have "marketable skills." New York City's Human Resources Administration, which runs the city shelter system, says that about 30 percent of recent arrivals were there because they had recently lost their jobs. As the Community Services Society explains in *Hardship in the Heartland*, "Something happens—a job is lost, unemployment benefits run out, creditors and banks move in to foreclose, eviction proceedings begin—and quite suddenly the respectable poor find themselves among the disreputable homeless."

One especially vulnerable group is poor young families. They have suffered at the hands of the Reagan administration over the last four years: in slashes in housing assistance (\$1.8 billion), Aid to Families with Dependent Children (\$4.8 billion), child nutrition (\$5.2 billion), food stamps (\$6.8 billion), and low-income energy assistance (\$700 million). For many years shortsighted local housing policies have fostered urban renewal but have given scant attention to those removed from condemned buildings. And families that lose their homes soon discover that social service bureaucracies are already overextended.

In New York City the number of homeless families housed by the city in hotels has more than doubled since January 1983, rising from 1,400 to 3,285 last December. On January 9 this year, New York's shelters and hotels took in an unprecedented 20,000 people: 63 percent of them were families. Tens of thousands of other poor families are believed to be "doubling up" with friends and relatives. Even more disturbing, according to Robert Hayes, counsel to the National Coalition for the Homeless, there are now more children under the age of 16 than there are single adults staying in the city's emergency shelter system. A wrenching story by Jane Gross in *The New York Times* in January chronicled the seven-month ordeal of a pregnant woman and her five children who spent countless days and nights being sent from local welfare offices to overcrowded shelters to an HRA Emergency Assistance Unit—none of which had so much as a bed to spare. "Often, those in the shelters yearn for a berth in a single-room occupancy hotel. But those who have braved the hotels, where they say they are often robbed and molested, return gratefully to the shelters they once clamored to leave. Some say they prefer the streets to the degrading and debilitating process of finding a bed, but

are chased indoors by fear, cold, illness, or terror that the Bureau of Child Welfare will separate them from their children."

Here in Washington, the city currently copes with family homelessness through what is known as the "open market" system. Homeless families must go each day to the aptly named Pitts Hotel at 14th and Belmont Streets NW, where they receive their meals and a room assignment for the night. If the Pitts is full, they are given bus fare and sent to one of two other dismal hotels on the outskirts of the city, or to the Greentree Shelter in Bethesda, Maryland. The next day they return to the Pitts, and begin the process again. Many families shuttle among the hotels for months as they search frantically for an apartment they can afford.

Some of the luckier open-market families wind up just down the road from the Pitts, at the Community of Hope,

housed in a renovated apartment building on Belmont Street. The organization, which is funded by the city, is run by Tom Nees, a minister in the Church of the Nazarene. Families pay a small rental fee to live temporarily in the building. The money is put into an escrow account and given to the family when it leaves, ideally within 90 days. Nees's group includes health and social services, legal aid, job assistance, emergency housing assistance and counseling, and so on.

"Family homelessness," Nees says, "is primarily an economic problem. Street people are traumatized, and will be dependent regardless. That's not



true with families, where homelessness produces the trauma." The families at the Community of Hope rarely include a husband or father. Five of the dozen women staying there at the time of my visit worked full-time, but didn't earn enough to rent apartments of their own. Others were welfare mothers who had parceled out their children to friends and relatives or foster care. Nees tries to get such families back together. Most of the women had been living in cramped quarters with friends or relatives. Their families broke up when overcrowding in a small apartment became intolerable, or when the landlord threatened to revoke the lease, or when they realized the impossibility of finding a place cheap and big enough for all of them. Washington's public housing office is still processing applications filed ten years ago; there are no federal funds to speak of.

Nees also tries to urge the women on to greater self-sufficiency. But he can help only the employable—"We don't know how to begin with the others." And for many of the women, a minimum-wage job would hardly help.

"A woman with five or six kids could be getting \$1,000 a month in food stamps and AFDC. She'd have to earn \$12,000 a year to compare with that. It's a terrible dilemma. There is now a disincentive to enter the job market at the minimum wage—you can't raise yourself above the poverty line."

Cities are spending considerable sums on emergency measures like the Pitts that do little or nothing to solve these families' problems: no housing and no jobs. The D.C. government shells out between \$80 and \$250 a day for each open-market family. Nees's costs are \$40-\$45 a day. New York spends a minimum of \$1,200 a month to put up a family of four in a city shelter. As the Task Force Report of the American Psychiatric Association describes it, "City policy toward the homeless is best described as one that lurches from court order to court order. . . . Harvests of waste rather than economies of scale are reaped when crisis management becomes the *modus operandi* of housing and social service agencies." Or, as Nees puts it, "They're just putting out fires and picking up the bodies."

THESE PIECEMEAL, insufficient, and expensive efforts are an accurate reflection of ambivalent policies and beliefs. Two decades ago, during the Kennedy administration, the wards of state mental hospitals were emptied out at the urging of progressive politicians and psychiatrists who justifiably denounced the mistreatment of inmates and the wretched conditions, and who believed that the mentally ill had the right—and, with proper medication and counseling, the ability—to live productive lives in the community.

Today the betrayal of that vision is well known. Patients were precipitously released regardless of whether local facilities could provide adequate follow-up care—indeed, regardless of whether those facilities even existed. Communities fought the establishment of halfway houses and clinics in residential neighborhoods, and local governments were reluctant to fund them. The mental health centers that were established were designed more for treatment of people with occasional problems than for chronic patients. Families often found themselves unable to cope with the strains of caring for a disturbed sibling or parent or child. And the new miracle drugs proved to be less of a cure-all than the psychiatrists had hoped. Though untold numbers successfully made the transition from years of custodial care to independent lives outside, many thousands of the most needy did not.

One of the deeply held principles of the Reagan administration is that people not only have a right to self-determination, but a duty as well. Last winter when President Reagan was asked on "Good Morning America" about the widespread impression that his policies are causing misery among the poor, he replied: "What we have found in this country—and maybe we're more aware of it now—is one problem that we've had, even in the best of times, and that is the people who are sleeping on the grates, the homeless who are homeless, you might say, by choice."

That is, if people choose not to get a job, and not to care for

themselves responsibly, it must be a matter of life-style. In any case, it should not be a matter of pressing concern to the federal government.

The failures of deinstitutionalization, the sluggishness of city bureaucracies, and the Reagan administration's laissez-faire precepts have led to a contrary notion among those concerned about the homeless: the "right to shelter." The 1979 case of *Callahan v. Carey* in New York state's Supreme Court established that the city had a legal obligation to provide shelter for the homeless. A few weeks later, in one of the most ironic repercussions yet of the community mental health movement, New York City opened the Keener Shelter on Wards Island—an empty building in one of those large, isolated state psychiatric hospitals that had been shut down. But the city balked when it came to overseeing the shelter: two subsequent lawsuits were brought—and won—against the city for failing to maintain adequate health standards, and for allowing severe overcrowding. A facility designed to hold up to 180 men was taking in 600 each night.

Many citizens are ready to recognize the right to shelter, but not to welcome the homeless into their neighborhoods. This point was neatly made in Washington recently. On election day an initiative—conceived by Mitch Snyder's group, the Community for Creative Non-Violence—requiring the District to provide shelter to everyone who requests it was passed by a resounding 72 percent, despite the opposition of virtually every politician and activist in the city. A few weeks after the vote, during a town meeting in Georgetown to discuss the possible opening of a small shelter for women in the neighborhood, a woman serving on the Advisory Neighborhood Commission stood up and objected, "What do you mean support services? I voted for Initiative 17, but I thought I was just voting for mattresses on the floor."

PARTLY for this reason, some are now advocating a return to the days of asylum. On "Nightline" recently, George Will made the case bluntly. "We constantly in this country talk about every problem in terms of a clash of individual rights," he said. "The community has some rights here. If it is illegal, and it is, and ought to be illegal, to litter the streets, frankly it ought to be illegal for people who must survive in panhandling among other things to sleep on the streets. Therefore there is a simple matter of public order and hygiene in getting these people somewhere else. Not arrest them, but move them off to some place where they are simply out of sight and no longer a visible, in some cases intrusive, in some cases even an aggressive, public nuisance." The trouble with Will's trash removal solution is that the problem is not a "simple matter of public order"—or a simple matter of anything else. For the vast majority of the homeless, reinstitutionalization is not a sensible solution.

The first, most obvious, step is to create respectable, affordable, permanent housing. The National Low Income Housing Coalition estimates that at least 750,000 new apartments a year are needed. City and state governments

are now beginning to recognize the urgency of the situation. Since 1983 New York has renovated for the homeless 4,500 vacant apartments owned by the city. Mayor Koch—under relentless pressure from advocacy groups and City Council members Ruth Messinger and Carol Bellamy, his opponent in the mayoral race—has stopped awarding tax breaks to real estate developers eager to convert SROs into luxury condominiums. New York governor Mario Cuomo and Massachusetts governor Michael Dukakis have made specialized housing programs for the poor, disabled, and elderly—closely connected to mental health and social service programs—a top priority.

The Reagan administration, on the other hand, appears to have decided to renounce once and for all any meaningful federal support. HUD's budget authority for assistance to additional households was cut from \$30 billion to \$11 billion in Reagan's first term. In his fiscal 1986 budget, he proposes to chop that by an additional 95 percent, to \$499 million. The impact of these cuts, which are spread over a period of 20 years, has hardly been felt yet. Most housing analysts agree that although cities and states and private organizations may be better suited to administer effective housing programs, they simply don't have enough money for the initial investment, especially in cities like New York, where the need for low-income housing has become desperate.

IN THE LONG RUN, emergency shelters will cost everyone a great deal more than permanent apartments, group homes, and a mental health system that values patients' well-being as much as their freedom. Public policy is being driven by defensiveness and a failure of nerve. There are efficient and even modestly successful organizations out there that have put to good use whatever truncated services are available, without placing undue strain on the public purse.

Doubtless a small percentage of the chronically mentally ill will need continuing supervised care in a structured setting. The St. Francis Residence on Manhattan's East Side and now the St. Francis Residence II on the West Side are repeatedly cited as examples of decent, long-term, inexpensive care for the mentally ill. Both were former SRO hotels that were renovated through donations to the St. Francis of Assisi Friends of the Poor. "Our intention," says Father John Felice, who founded the homes, "is to make the social service system work." Unlike the huge armories and flophouses run by the city, St. Francis demands that the dignity and privacy of each resident be respected. Tenants are guaranteed a room of their own, for which they pay \$145-\$210 per month out of their welfare payments, Social Security, SSI, or—if they have a job—their paychecks. Occasionally one of the men or women will require a period of hospitalization, in which case his or her room is held open. It costs St. Francis a modest \$15-\$20 a day for each of its residents. Many men are afraid to spend a single night at the city shelters. The tenants at St. Francis consider it their home. There is very little turnover.

For those whose suffering is less existential than eco-

nomic, there are any number of possibilities. In Washington the Community of Hope, which assists families, is only one of them. There is McKenna House, which takes in unemployed men, assists them in finding jobs, and helps them to become fully independent again. There is the Reverend John and Erna Steinbruck's "N Street Village" at Luther Place on Thomas Circle, which includes—in addition to an emergency shelter for homeless women inside the Luther Place Church—a health clinic for the neighborhood poor and three group homes for women, where they are helped to find jobs and permanent living arrangements.

THESE UNDERTAKINGS share several fundamental principles. Insofar as it is possible, they reduce the need for shelter rather than perpetuate it. They attack both institutional and welfare dependency with strong doses of old-fashioned practical self-help. They are small and admittedly selective, recognizing that homelessness can't be effectively treated as long as people are being housed in vast warehouses, or as long as it is considered a mere matter of "mattresses on the floor."

The Steinbrucks emphasize that the most fragile of their charges—the women, most of them mentally ill, who spend each night on the floor of their chapel—would be better served at St. Elizabeth's mental hospital, where at least they would be safe. One woman was assaulted on the steps of the Luther Place Church. Another, 80 years old, was beaten while she was out on the streets. Erna Steinbruck says, "Some of them can't make a decision for their own well-being. But St. E's doesn't want them; it wants to get them out." One night recently a schizophrenic woman was sent from The District of Columbia General Hospital to St. Elizabeth's to the street's because no psychiatrist had been willing to sign an involuntary commitment form and she herself couldn't cope with the paperwork. She showed up at Luther Place the next morning.

Still, the Steinbrucks have shown an adroitness at coaxing casseroles and clothing from their parishioners and neighbors; at convincing students to staff their group homes and doctors to work in their clinic; and at negotiating the complex of city welfare offices, zoning ordinances, police emergency units, and the recalcitrant mental health system. They have had less success with the biggest proponent of voluntarism: Ronald Reagan. The most the Steinbrucks have received from the administration is a few consultations with Harvey Vieth, the chairman of the Federal Task Force on the Homeless, and a visit from some of the cabinet wives, who stopped by one day at Christmas-time laden with toiletries for the women.

Some of the solutions for the homeless will not be cheap or politically popular. But the Community of Hope, the St. Francis Residences, and Luther Place have demonstrated that providing for the majority of the homeless need not entail hiding them away. Neither passive acceptance of places "fit for vermin and trash" nor calls for a return to custodial care are the only ways out of this quandary. They are simply the least imaginative. □

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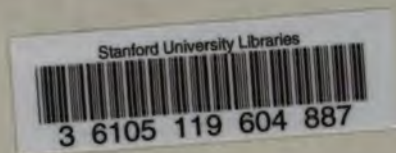
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